

# National Library of Scotland

2017/18 Annual Audit Report



 AUDIT SCOTLAND

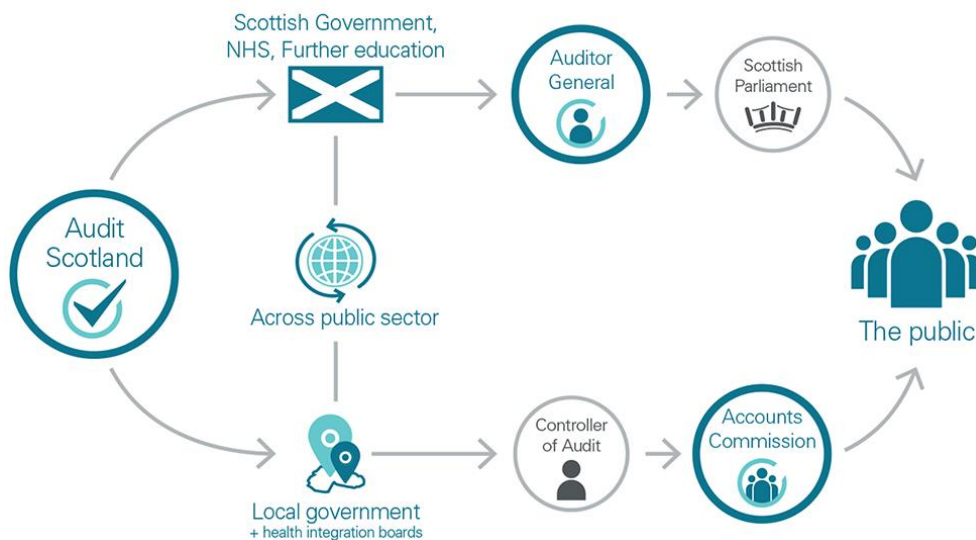
Prepared for the National Library of Scotland and the Auditor General for Scotland

17 August 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Contents

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Key messages	4
Introduction	5
Part 1 Audit of 2017/18 annual report and financial statements	7
Part 2 Financial management	10
Part 3 Financial sustainability	13
Part 4 Governance and transparency	16
Part 5 Value for money	21
Appendix 1 Action plan 2017/18	24
Appendix 2 Significant audit risks identified during planning	27
Appendix 3 Summary of national performance reports 2017/18	29

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# Key messages

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## 2017/18 annual report and financial statements

- 1 In our opinion the financial statements of National Library of Scotland (NLS) give a true and fair view of the financial position and their expenditure and income.
- 2 The other information in the Annual Report of the Board is consistent with the financial statements and prepared in accordance with the accounting framework.

## Financial management

- 3 We concluded that NLS have effective arrangements in place for financial management. NLS have maintained a balance on their General Fund of £540,000 as at 31 March 2018. This is an increase of £193,000 against the prior year's balance.
- 4 NLS have adequate systems of internal control in place which operated effectively in 2017/18.

## Financial sustainability

- 5 We concluded that NLS has adequate financial planning arrangements in place.
- 6 There are no significant concerns about the overall financial position of NLS.

## Governance and transparency

- 7 We concluded that NLS have effective governance arrangements in place, and is open and transparent in the way it conducts its business.
- 8 NLS face challenges to meet the requirements of the Cyber Resilience Action Plan.

## Value for money

- 9 We concluded that NLS have an effective performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.
- 10 The Library's key indicators show an improved trend in performance, with the majority of targets met in 2017/18.

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# Introduction

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1. This report summarises the findings from our 2017/18 audit of the National Library of Scotland (referred to as 'NLS' or 'the Library' throughout).

2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2018 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the NLS annual report and financial statements
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1

### Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work in 2017/18 have been:

- an interim audit of NLS's key financial systems and governance arrangements
- an audit of NLS's 2017/18 annual report and financial statements including the issue of an independent auditor's report setting out our opinions
- a review of the Library's arrangements in relation to the audit dimensions noted above. This report is structured to cover our assessment of each of these dimensions.

4. NLS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and financial statements that are in accordance with the accounts direction from the Scottish Ministers. The NLS annual report and financial statements includes the following:

- Annual Report of the Board
- Governance Statement
- Financial statements and supporting notes.

5. NLS is also responsible for establishing effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

6. Our responsibilities as independent auditors are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors, we give independent opinions on the annual report and financial statements. We also review and provide conclusions on the regularity of income and expenditure, effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability.

8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from the audit of the annual report and financial statements and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our annual audit report contains an agreed action plan at [Appendix 1 \(page 24\)](#). It sets out specific recommendations, agreed management actions, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £20,410 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

12. Our aim is to add value to NLS by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

13. This report is addressed to both the Library's Board and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) after the Library's annual report and financial statements have been laid before the Scottish Parliament.

14. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2017/18 annual report and financial statements



### Main judgements

The NLS financial statements for 2017/18 give a true and fair view of the state of the body's affairs and of its income and expenditure for the year.

The other information in the Annual Report of the Board is consistent with the financial statements and prepared in accordance with the accounting framework.

### Audit opinions on the annual report and financial statements

15. The annual report and financial statements for the year ended 31 March 2018 will be approved by the Board on 26 September 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared in accordance with the accounting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the information given in the Annual Report of the Board and in the Governance Statement is consistent with the financial statements and properly prepared in accordance with legislation and guidance.

16. Additionally, we have nothing to report in respect of the adequacy of accounting records kept, and the information and explanations we received.

The annual report and financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

### Submission of annual report and financial statements for audit

17. We received the unaudited financial statements on 18 June 2018 in line with our agreed audit timetable.

18. The working papers provided with the unaudited financial statements were of a high standard and finance staff provided good support to the audit team which helped ensure the year-end audit process ran smoothly.

### Whole of Government Accounts (WGA)

19. In accordance with WGA guidance, we plan to complete the required assurance statement and submit this to the National Audit Office (NAO) by the 30 September 2018 deadline.

### Risk of material misstatement

20. [Appendix 2](#) (page 27) provides a description of those assessed risks of material misstatement that were identified during the planning process. These risks

had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

## Materiality

**21.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

**22.** Our initial assessment of materiality for the annual report and financial statements was carried out during the planning phase of the audit. This was based on 1% of total assets using the 2016/17 audited financial statements. Specifically, regarding the annual report and financial statements we assess the materiality of uncorrected misstatements, both individually and collectively.

**23.** On receipt of the 2017/18 unaudited annual report and financial statements we reviewed our original materiality calculations and concluded that they remain appropriate, as shown in [Exhibit 2](#).

## Exhibit 2

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of total assets as at 31 March 2018. We have used total assets as the basis for calculating materiality, as a primary function of NLS is to operate as a custodian of public assets. This treatment is in line with ISA 320 and Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom.	£1.1 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£825,000
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£22,000

Source: Annual Audit Plan 2017/18

## How we evaluate misstatements

**24.** It is our responsibility to request that all misstatements other than those below the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

**25.** There were no material adjustments to the unaudited financial statements arising from our audit.



## Significant findings from the audit in accordance with ISA 260

**26.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These findings include our views about significant qualitative aspects of the Library's accounting practices including:

- |   |  |
|---|--|
| • Accounting policies   | • Accounting estimates and judgements  |
| • Significant financial statements disclosures                | • Timing of transactions and the period in which they are recorded               |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements             |
| • Misstatements in the Accounts                               | • Disagreement over any accounting treatment or financial statements disclosure. |

**27.** We have no significant issues from our financial statements audit to report to you.

### Other findings

**28.** Our audit identified some presentational and disclosure issues which were discussed with management. One disclosure discussed was the Statement of Accountable Officer's (AO) Responsibilities. This is a separate, signed statement required by the Financial Reporting Manual (FReM). It is management's view that the FReM template statement is not fully applicable to the Library's annual report and financial statements, as the AO responsibilities noted in the FReM do not fit within the Library's governance arrangements. Instead, the Governance Statement includes reference to some of the AO responsibilities, while the Annual Report section provides the key responsibilities of the Board members. This approach varies with other similar bodies which include a separate, signed statement. We accept management's approach, but members should be advised this does not fully adhere to the FReM accounting framework. All other disclosure issues noted to management were adjusted and are now reflected in the final version of the annual report and financial statements.

### NLS Foundation

**29.** As part of our interim audit, we met with management to assess NLS's relationship with the National Library of Scotland Foundation. The Foundation is an independent company limited by guarantee, is a separate registered charity and has its own Trustees. The Library makes periodic applications to the Foundation for financial support for specific activities and projects.

**30.** Our review assessed transactions between the two bodies, applicable legislation and relevant accounting standards. We are content that, in 2017/18, NLS did not exercise control over the Foundation, as required by SORP paragraph 24.15. Therefore, we agree with management's decision not to consolidate the Foundation this year in the NLS annual report and financial statements. We will continue to assess the Library's relationship with the Foundation throughout the remainder of our audit appointment.

### Follow up of prior year recommendations

**31.** We have followed up actions agreed in 2016/17 to assess progress with implementation. We have reported progress of these prior year actions in [Appendix](#)

1. They are identified by the prefix b/f (brought forward). We are pleased to report all prior year recommendations have now been fully actioned.

# Part 2

## Financial management



### Main judgements

NLS had effective management of its 2017/18 budget.

Systems of internal control operated effectively in 2017/18.

Finance team members have appropriate skills, capacity and capability to support NLS.

### Financial performance in 2017/18

32. The main financial objective for NLS is to maintain a stable and sustainable financial environment. Part of this objective is to maintain an adequate financial outturn for the year, compared to the budget allocated by Scottish Ministers.

33. NLS has reported an outturn of £20.445 million (2016/17: £23.367 million) remaining within its overall budget for 2017/18 with an underspend of £1.026 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 3](#).

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### Exhibit 3

Performance against DEL in 2017/18

Performance	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	13.180	13.224	0.044
Ring-fenced DEL (non-cash)	3.050	2.726	(0.324)
Capital DEL (includes purchase grant)	5.241	4.495	(0.746)
<b>Total DEL</b>	<b>21.471</b>	<b>20.445</b>	<b>(1.026)</b>

Source: 2017/18 NLS annual report and financial statements

**34.** The £746,000 underspend noted against Capital DEL is attributable to the following factors:

- £116,000 relates to the purchase grant, due to the timing of purchases slipping into April 2018.
- A further £313,000 relates to capital expenditure for IT equipment which was delayed until early in the 2018/19 financial year.
- The remaining underspend is due to the Causewayside project being under budget.

**35.** Overall the Library reported a £1,026,000 underspend against DEL. In addition to the £746,000 capital underspend noted above, there was also a £324,000 underspend against ring-fenced DEL. This relates to depreciation and the difference simply reflects the Library's year-end depreciation charges compared to the slightly larger 'non-cash' allocation received from the Scottish Government.

**36.** The Library remains in good financial health and have seen an increase in its level of reserves, and in particular, the General Fund. Over the year, the General Fund balance moved from £347,000 at the end of March 2017 to £540,000 at the end of March 2018 which is an increase of £193,000. This balance is well above the minimum £200,000 target set by the Board.

## Budgetary processes

**37.** We reviewed NLS's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.

**38.** We concluded that NLS has strong budgetary monitoring and control arrangements that allow members and officers to carry out effective scrutiny of its finances.

## Systems of internal control

**39.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that NLS has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**40.** Our interim work in February 2018 reviewed the following key financial systems:

- General Ledger
- Creditors
- Debtors
- Payroll
- Fixed Assets
- Cash and Bank

**41.** We concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect the

Library's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

### **Financial capacity**

**42.** There have been no significant changes to the finance team during 2017/18 and we are satisfied that team members are experienced in their jobs and have appropriate skills and knowledge to support NLS effectively.

### **Quality of financial and performance reporting**

**43.** A finance report and updates on the Library Plan (which includes performance indicators) are presented regularly at Board meetings. Regular finance reports are also presented to the Audit Committee. From our review of Audit Committee and Board papers and attendance at Audit Committees, we confirm that these papers are fully discussed and scrutinised.

**44.** The finance reports provide information on the financial performance against budget to date and forecasts outturn. Reports are transparent, timely and clear, and support effective scrutiny of the financial management process. We are satisfied these reports provides sufficient information and that figures reported are consistent with the year-end position.

**45.** The Library Plan presented to the Board provides good context for each of the Library's key performance measures. Performance reviews contain clear objectives and targets. A review of the Library's performance framework is detailed in part 5 of this report.

# Part 3

## Financial sustainability



### Main judgements

**NLS have adequate financial planning arrangements in place.**

**There are no significant concerns about the overall financial position of NLS.**

### Financial planning

**46.** The 2018/19 Library Plan includes the budget for the 2018/19 financial year. This Plan was presented to the Board at the meeting in March 2018. Grant in Aid from the Scottish Government continues to be the Library's main source of income (88%). The 2018/19 budget sets out that the Library's total Grant in Aid is £15.280 million<sup>1</sup>. This is made up of £13.530 million for its revenue budget and £1.750 million for its capital budget. Grant in Aid is £2.891m million (16%) less than the 2017/18 budget allocation. The reduction is due to a decrease in the Library's capital budget, due to the completion of works at the Causewayside site.

**47.** The 2018/19 budget also includes £2.117 million of other income; such as other grant income, donations, fundraising and earned income from services and rents. The 2018/19 budget shows an overall balanced position, with total expenditure projected to be £17.396 million to match total income.

**48.** Management have acknowledged there are some risks and challenges with the Library's 2018/19 financial plans and beyond, mainly due to the following risk factors:

- Potential reduction in Grant in Aid funding
- Changes in future Scottish Government pay policies
- The ability to generate sufficient income from other sources to support the Library's strategy
- Management of capital projects, particularly the new Library Services Platform which will begin roll out in 2018/19.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### 2017/18 financial position

**49.** The Balance Sheet summarises what is owned and owed by NLS. The financial statements show that the Library has net assets of £114.976 million. This is an increase of £5.504 million. This is attributable to tangible asset additions in the year such as IT equipment and storage, as well as revaluation of the Library's buildings. There were also several heritage asset purchases to add to the Library's collection.

<sup>1</sup> National Library of Scotland, Library Plan 2018-19, March 2018

**50.** The Library's capital expenditure amounted to £3.461 million which was mainly due to the refurbishment works carried out at the Causewayside building.

## Medium to long term financial planning

**51.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

**52.** As noted previously we recognise that NLS is mainly funded from Scottish Government (SG) budget allocation through Grant in Aid and this is determined on an annual basis by the SG. This should not preclude NLS from preparing medium to long term financial plans using sensitivity analysis and scenario planning for possible budget changes.

**53.** The 2018/19 budget sets out efficiency savings which need to be achieved to balance the budget. During 2018/19 the Library plans to make efficiencies or raise extra income totalling over £410,000 (approximately 3% of the revenue Grant in Aid). These savings will be invested into operational activities to help the Library to continue delivering its service requirements.

**54.** The Library plans to achieve this savings target in 2018/19 through a combination of the following actions:

- Generate additional income from external sources (in addition to SG funding) and ensuring there is full cost recovery across services.
- Manage services in 2017/18 so efficiency savings are generated across all areas, particularly in relation to staffing costs (which account for approximately 50% of the total NLS budget).
- Constrain cost growth through effective demand management, good financial control by budget holders, and effective negotiation with suppliers.

**55.** Savings will be crucial in maintaining financial balance over the coming years. The Library Plan sets out budgets for the next three financial years. From these forecasts it is clear that the Library, like all public sector bodies, faces financial challenges going forward due to uncertainties over future funding allocations.

**56.** The Library Plan sets out three broad types of scenarios which are possible - positive, neutral and negative scenarios. A neutral scenario assumes that Scottish Government funding will remain fixed beyond 2018/19, but with ongoing pay restraint. Based on this neutral scenario, the Library would generate a surplus in 2019/20 of £100,000, but would need to find savings of £108,000 in 2020/21.

**57.** In an effort to promote best practice, the Library may wish to consider expanding their budget forecasts for a 5-year period (i.e. a further 2 years), which some other public sector organisations are forecasting at a high level.

**58.** Overall, we conclude that adequate financial plans are in place for the Library over the medium term, and there are no concerns regarding the financial sustainability of the organisation at this time.

## EU withdrawal

**59.** There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.

- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

## Good practice

**60.** The [Code of Audit Practice 2016](#) encourages auditors to identify good practice which in their opinion is worth sharing more widely. We consider that the Library's use of scenario planning in its financial plans for the next three years to be an area of good practice. This scenario planning allows adjustments to be made for uncertainties and assumptions in future budgets, which will allow the Library to adapt to cost pressures as they arise in the future.

# Part 4

## Governance and transparency



### Main judgements

**NLS have effective governance arrangements in place that support scrutiny of decisions made by the board.**

**NLS are open and transparent in the way it conducts its business.**

**NLS face challenges to meet the requirements of the Cyber Resilience Action Plan.**

### Governance arrangements

**61.** The National Library of Scotland Act 2012 confirmed the Library's general function as 'a national resource for reference, study, research and bibliography, having particular regard to Scotland'. The Act also modernised the make-up and responsibilities of the Board. There are 12 members plus an appointed Chair on the Library's Board. All Board members are appointed by the Scottish Ministers.

**62.** The role of the Board is to provide leadership, direction, support and guidance to ensure the Library delivers and is committed to delivering its functions effectively and efficiently and in accordance with the aims, policies and priorities of the Scottish Ministers<sup>2</sup>. The Board is supported in its governance role by the following committees:

- Audit Committee
- Governance Committee
- Staffing and Remuneration Committee.

**63.** This committee structure is unchanged from last year. The Audit Committee and the Staffing and Remuneration Committee have delegated responsibility for certain matters under the Scheme of Delegation. In addition, the Governance Committee has continued to consider appropriate ways to improve governance of the Library.

**64.** Responsibility for delivering the Strategy and Operational objectives is devolved to the National Librarian, supported by the Library Leadership Team. The National Librarian is also the Chief Executive of the Library and the Accountable Officer for the use of public resources.

**65.** From our attendance at Audit Committees, we note that committee papers are well prepared in advance of each meeting, and sufficient time is made available at each meeting to allow appropriate discussion of each item on the agenda.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

<sup>2</sup> Framework Document between the Scottish Government and the National Library of Scotland



Committee members are well-prepared and provide effective scrutiny to NLS officers and auditors.

**66.** We have prepared a separate paper for members which sets out Audit Committee good practice. We conclude the NLS Audit Committee is currently applying appropriate and effective governance and benchmark well against other organisations.

## Transparency

**67.** Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

**68.** The Library's Board meetings are held in private. Board minutes are published on the Library's website and papers are available on request. We consider these arrangements to be adequate.

**69.** NLS have a well-established complaints handling procedure in place which is monitored by the External Relations & Governance Department via an online database to track progress. Information is available on the Library's website about how to register complaints. Our review of these procedures noted that NLS have a clearly laid out procedure available to the public. The procedure also refers the reader to the Scottish Public Services Ombudsman (SPSO) with contact information, if they are dissatisfied with the NLS procedure. These arrangements are deemed appropriate.

**70.** A variety of information about the Library, the Board and its corporate governance arrangements are available on the NLS website. The Library also engage with members of the public via social network channels and a regular NLS blog. Overall, we concluded that NLS conducts its business in a transparent manner.

## Risk management

**71.** We have reviewed the Library's risk management arrangements in place, including a review of the Risk Management Policy & Framework.

**72.** The Risk Management Policy defines risk, outlines the principles the Library will follow, allocates responsibilities for the management of risk (for various categories of staff and management) and outlines the appetite the Library has for risk i.e. amount of risk the Library is willing to accept.

**73.** Risk at departmental level is identified and managed by each Head of Department using Departmental Risk Registers. These registers are then supported by a Corporate Risk Register which is managed by the Library Leadership team (LLT). The Corporate Risk Register is reviewed on a quarterly basis by LLT with any new risks escalated to the appropriate level. In conjunction with the Board, the Library then maintains a Strategic Risk Register. The Strategic Risk Register is reviewed at least every six months, both by LLT and the Audit Committee, and is reported to the Library's Board.

**74.** The Audit Committee has a responsibility to scrutinise and provide assurance to the Library Board on the adequacy of its risk management processes. This includes reviewing the Library's Strategic Risk Register and agreeing the Risk Appetite and Tolerances.

**75.** We have concluded that appropriate risk management arrangements are in place. The related policies and procedures, including the regular update of risk registers, is judged to be comprehensive for NLS.

## Internal audit

**76.** The internal audit function is carried out by Henderson Loggie. As Henderson Loggie are the internal auditors for a number of shared clients with Audit Scotland, we completed a central review of the adequacy of their work and compliance with the Public Sector Internal Audit Standards (PSIAS). This review, completed by our Audit Services Group in December 2017, concluded that Henderson Loggie's policies and practices are compliant with the PSIAS.

**77.** We also completed a local review of internal audit arrangements for NLS and have concluded these arrangements to be satisfactory. Henderson Loggie issued their Internal Audit Charter to the Audit Committee earlier this year. This Charter is a PSIAS requirement which sets out the purpose, authority and responsibility of internal audit. It is good practice for this Charter to be refreshed and approved by the Audit Committee periodically.

**78.** Based on our review of internal audit reports, we considered their findings closely, particularly the results of their key financial controls review. This review provided an overall 'Good' conclusion and did not identify any control weaknesses. As we focused our external audit on substantive testing this year, we have not placed formal reliance on the work of internal audit to support our audit opinion on the financial statements.

## Governance Statement

**79.** Under the Treasury's Financial Reporting Manual (FRoM), NLS must prepare an annual governance statement within its annual report and financial statements. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

**80.** The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. The Library's assurance process included senior officers in the Library Leadership Team providing the Accountable Officer with signed Certificates of Assurance and internal control checklists. These signed statements and checklists provide the Accountable Officer with additional assurance over the adequacy and effectiveness of the systems of internal control which operate in each of the officer's departments.

**81.** We concluded that the 2017/18 governance statement complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents a comprehensive picture of governance arrangements and key matters.

## National Fraud Initiative

**82.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

**83.** The current data matching exercise is now complete. Match investigation work began in January 2017 and continued throughout the year. In our 2016/17 Annual Audit report we reported that NLS is committed to the NFI exercise and has been pro-active in investigating data matches. No cases of fraud or error have been found in the latest exercise. We reported one minor recommendation last year which has now been addressed.

## Standards of conduct and arrangements for the prevention and detection of fraud and error

84. We have reviewed the arrangements in place to maintain standards of conduct including the NLS Staff Code of Conduct and Code of Conduct for members of the Board. The Staff Code of Conduct is dated March 2015 and is currently being reviewed by the Library. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption. Furthermore, NLS have a Gifts, Fees, Hospitality, Bribery and Corruption Policy in place. This refers to the relevant Bribery and Corruption Act 2010, key risk areas and sets out how staff should raise any concerns.

85. Based on our review of the evidence we concluded that NLS have appropriate arrangements in place for the prevention and detection of bribery corruption. We are not aware of any specific issues that we need to bring to your attention.

## Cyber security

86. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

87. We carried out a high-level review of the Library's progress against this Action Plan as at June 2018. We found that the Library faces a challenge to meet the target of achieving 'Cyber Essentials Plus' accreditation by October 2018. The pre-assessment undertaken by an external IT firm in March 2018 highlighted several weaknesses in the Library's IT systems. The IT department are prioritising remedial action in the coming months, framed around the recommendations in this pre-assessment. Key actions will include improving password security, implementing multi-factor authentication on systems/devices and patching/updating operating systems and applications within 14 days of a released patch.

88. The Library's Digital Roadmap strategy and Business Continuity Planning will require to be updated to take recognition of Cyber Essentials criteria. The Library are also currently undertaking a skills gap analysis within their IT department to assess if there are any skills or shortage of knowledge relating to cyber security.

89. Good practice has been identified from our review:

- the IT team regularly report cyber updates to the Library Leadership Team and the Audit Committee
- all-staff training on cyber security has taken place in recent months
- the Library have registered with the Cyber Security Information Sharing Partnership (CiSP) - CiSP is a joint industry and government cyber initiative.

90. We concluded that NLS is actively strengthening its cyber resilience arrangements, but face challenges to upgrade its IT infrastructure and processes to meet the required standards.

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**Recommendation 1: We recommend the Library's IT department continue to prioritise issues identified in the March 2018 cyber security pre-assessment. The IT strategy and relevant policies should also be updated to reflect the new cyber security requirements.**

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## General Data Protection Regulation

91. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out more

requirements than the DPA and has introduced new and significantly changed data protection concepts. Failure to comply with new GDPR data handling arrangements could result in organisations incurring significant fines.

**92.** Internal audit presented a report titled '*Data Protection/ Freedom of Information*' to the Audit Committee in February 2018. This report included a review of the Library's preparedness for implementation of the new GDPR requirements. Their conclusion of the Library's GDPR plans and staff training was reported as 'Good', with no recommendations raised for this section of the report. We have taken assurance from these internal audit findings.

**93.** Since this review, the Library's new Data Protection Policy was published in April, and came into force on 25<sup>th</sup> May 2018. This policy has now been updated to reflect GDPR requirements. This sits alongside the revised Information Security Policy (January 2018). NLS has in place a GDPR preparation project plan in the lead up to the May deadline and beyond. This project has been subsumed within the Library's wider Records Management Plan (RMP) implementation project. Progress on the RMP is reported quarterly to the Library Leadership Team.

**94.** Key elements of progress against GDPR requirements include:

- The Library has created an Information Asset Register, internally named the 'Personal Data Register'.
- The Library have registered their Intellectual Property Specialist as their designated Data Protection Officer
- New privacy notices have been published on the NLS website
- All staff training on data protection was provided in April and May 2018.

**95.** We conclude that NLS has made good progress on planning for and implementing GDPR requirements. The GDPR implementation project shows a number of key requirements are now fully implemented, however, some requirements remain outstanding as at June 2018. We advise management to continue to address these points to ensure full compliance with GDPR.

## Good practice

**96.** In our 2017/18 Annual Audit Plan, we highlighted good practice in relation to the Library's governance policies and procedures. These are summarised as follows, in an effort to share good practice with other public sector bodies:

- A schedule of policies and compliance is maintained to ensure key governance documents for each of the Library's departments are regularly reviewed and updated. This includes any updates required to recognise changes in relevant legislation.
- Terms of Reference for the Library's Committees are updated regularly with reference to best practice and are made available on the NLS website.
- A register of interests for the Board is updated regularly and published on the NLS website.

# Part 5

## Value for money



### Main judgements

**NLS has a well-developed performance management framework in place.**

**The Library's key indicators show an improved trend in performance, with the majority of targets met in 2017/18.**

### Performance management

**97.** Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with NLS agree to undertake local work in this area.

**98.** NLS included their objectives in the 2017/18 Library Plan. This Plan sets out activities and objectives, which are linked to the Library's strategy, to be achieved in the financial year. For 2017/18, the Plan comprised a total of 20 key activities to help the Library achieve its 6 strategic priorities. Among a range of performance measures, the Plan includes metrics on the percentage of items to be converted to a digital format, reducing items held in Hidden Collections, exhibition visitors, website visits and staff absence rates. The Library Leadership Team (LLT) and Board have monitored the achievement of these objectives by using 14 Key Indicators in 2017/18. We have summarised the Library's performance against these Key Indicators in [Exhibit 4](#). This includes prior year comparators where available.

**99.** Key activities completed in relation to the 2017/18 Library Plan include:

- The move back to the Causewayside premises and the development of a digitisation suite,
- Continuation of the Library's map digitisation work which will result in completing the digitisation of single sheet maps of Scotland by 2020;
- Further investment to enhance the services of the Moving Image Archive at the Kelvin Hall site; and
- Substantive completion of the Causewayside refurbishment work.

**100.** The Board is kept well informed of performance across all areas of the Library's activity. On a quarterly basis the results of progress with the Plan and performance against the Key Indicators are reported to the Board. The Key Indicators are reported using a Corporate Dashboard which provides members with a clear summary on the Library's performance and supporting comments where there have been changes. The Corporate Dashboard is reviewed regularly by the LLT and, where necessary, actions are agreed to keep the Plan on track.

Value for money is concerned with using resources effectively and continually improving services.

**101.** We regularly attend Audit Committees and review both Audit Committee and Board papers received by members to gain an insight into how well performance is scrutinised.

**102.** We concluded that NLS have an effective performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.

## Overview of service performance

**103.** Included in the 2017/18 annual report and financial statements is the narrative section 'Annual Report of the Board'. This section provides a good summary of the Library's financial and non-financial performance for the year, including commentary on performance against the Key Indicators set for 2017/18.

**104.** We reviewed the main performance indicators used by NLS and trends over the 2017/18 financial year and have summarised these in [Exhibit 4](#).

## Exhibit 4

### NLS Key Indicators – trend analysis

	2015/16	2016/17	2017/18
1. Environmental compliance	● 99.4%	● 98.7%	● 99.0%
2. Percentage reduction in Hidden Collections	● 0%	● 2.7%	● 7.2%
3. Percentage of collections available in digital format	● 5.5%	● 11.8%	● 13.9%
4. Number of research collaborations	● 13	● 20	● 36
5. Reading Room visits	● 63,291	● 69,392	● 68,787
6. School/ Lifelong Learning workshops	Information not available	● 194	● 260
7. Exhibition visitors	● 118,251	● 132,063	● 118,950
8. Number of public engagement/event attendees	● 120 events	● 107 events	● 111 events
9. Website usage (web sessions)	● 3.5 million	● 4.1 million	● 5.1 million
10. Overall user satisfaction levels	● 8.6	● 8.7	● 9.5
11. Staff absence rate (days per employee)	● 8.3	● 6.2	● 6.7
12. Percentage raised against Fundraising target	● 87%	● 63%	● 91%
13. Central support costs as a percentage of income	● 3.6%	● 5.2%	● 8.4%
14. Media profile (advertising value equivalent)	● £2.2 million	● £2.3 million	● £2.9 million

Source: NLS Annual Report and Financial Statements 2016/17 and 2017/18

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**105.** We note that there has been improvement across several key indicators (in 11 out of the 14 indicators) in 2017/18 compared to the previous year. Performance indicators for number of visitors and website usage remain steady. In addition, the Library organised a number of successful exhibitions, such as the Muriel Sparks Exhibition to help engage with young and emerging writers.

**106.** Performance on delivering the total fundraising target was again not met this year, although there are signs of improvement in this area. The fundraising target in 2017/18 was £295,000, with £267,000 (91%) collected (2016/17 target £600,000, with £378,000 (63%) collected). The Library's fundraising team had vacancies in the year which is likely to have affected collections obtained. It is acknowledged that fundraising and the timing of donations is difficult to forecast. It should also be noted that NLS are not reliant on fundraising, as they do not commit to any projects if fundraising targets are not met. However, achievement of this target is crucial to supporting significant elements of the Library's strategy.

### National performance audit reports

**107.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 several reports were published which are of interest to NLS. These are outlined in [Appendix 3](#).

**108.** The Audit Committee receives updates on Audit Scotland national reports which are considered relevant to the Library. Recent national reports were summarised within the quarterly Finance Report presented at the May 2018 meeting. Recently published reports which concern Central Government bodies include:

- [Common Agricultural Policy Futures programme: further update](#) – June 2017
- [Transport Scotland's ferry services](#) – October 2017
- [Early learning and childcare](#) – February 2018
- [Managing the implementation of the Scotland Acts](#) – March 2018

# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Cyber security</b></p> <p>NLS face challenges to update its IT infrastructure and processes to meet the requirements of the Cyber Resilience Action Plan, which has a deadline of October 2018.</p>	<p>The IT department should continue to take remedial action based on the March 2018 cyber resilience pre-assessment, and ensure their IT staff have the appropriate skills and knowledge of cyber security.</p> <p><a href="#">Paragraph 90</a></p>	<p><b>Agreed action:</b></p> <p>The IT teams will continue to work through the project plan to address the issues raised through the pre-assessment exercise, in order to successfully gain Cyber Essentials Plus accreditation by, or as soon after, October 2018 as possible. This will include staff training of both IT staff and general staff as appropriate.</p> <p><b>Responsible officer:</b></p> <p>Associate Director of Digital</p> <p><b>Agreed date:</b></p> <p>October 2018</p>

### Follow up of prior year recommendations

b/f	<p><b>Annual leave accrual</b></p> <p>NLS have calculated a liability (total £189,000) for employees' untaken annual leave from 2016/17, which staff are entitled to claim in 2017/18. NLS are potentially understating their annual leave accrual and therefore their liabilities, as employer pension costs and untaken staff flexi balances are not included in the calculation.</p>	<p>We recommend finance officers review their methodology and assumptions used in this calculation, to identify if this reflects an accurate estimate of the Library's liability for untaken annual leave and flexi hours owed to employees.</p>	<p><b>Updated response:</b></p> <p>Our review of the 2017/18 annual leave accrual found the calculation now includes all required elements, including employer's pension and national insurance costs, untaken flexi balances and time off in lieu. We conclude this accrual now reflects a more accurate estimation of the Library's year-end liability.</p> <p><b>Revised action:</b></p> <p>No further action required. <b>CLOSED.</b></p>
b/f	<p><b>Access to the banking system</b></p> <p>A finance officer continued to have access to the Library's</p>	<p>Staff leaving NLS should have system access removed timeously.</p>	<p><b>Updated response:</b></p> <p>This finance officer's access was removed from the banking system promptly.</p>





No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>online banking system after leaving the organisation.</p> <p>There is a risk that system access is not granted to appropriate users.</p>	<p>A periodic review should be carried out to ensure system access to NLS key financial systems remains appropriate for all users.</p>	<p>Our review of the Library's main financial systems in 2017/18 found that appropriate finance staff had system access.</p> <p><b>Revised action:</b></p> <p>No further action required. <b>CLOSED.</b></p>
<b>b/f</b>	<p><b>Reporting of NFI work</b></p> <p>Updates on the National Fraud Initiative (NFI) and investigation of data matches has not previously been provided to the Audit Committee by NLS finance officers.</p>	<p>We recommend finance officers present NFI updates to the Audit Committee, to provide members with additional assurance over controls in place to prevent and detect fraud.</p>	<p><b>Updated response:</b></p> <p>NFI updates, when relevant, are now being reported to the Audit Committee as part of the finance updates.</p> <p><b>Revised action:</b></p> <p>No further action required. <b>CLOSED.</b></p>
<b>b/f</b>	<p><b>Efficiency savings</b></p> <p>Like all public sector bodies, NLS faces financial challenges going forward. In 2017/18 the Library plans to make efficiency savings or raise extra income totalling over £470,000 (approximately 3.5% of the revenue grant).</p> <p>The achievement of savings will be crucial in maintaining financial balance over the coming years. The 2017/18 Library Plan sets out budgets for the next three financial years. While the Library is on course to achieve savings in 2017/18, NLS should ensure that it develops robust plans in the medium term for financial years 2018/19 and 2019/20.</p>	<p>The Library should ensure that robust saving plans are developed for 2018/19 and 2019/20.</p>	<p><b>Updated response:</b></p> <p>Savings of £250,000 were achieved in 2018/19, mainly due to the move back to the Causewayside site. Since the 2018/19 Library Plan was agreed we have also agreed the Service Review which will free up resources during 2018/19 and beyond. Beyond this we have the new Library Management System – with a list of planned benefits some of which are financial.</p> <p>The 2018/19 Library Plan provides a detailed budget plan for 2018/19 (including savings forecasts £410,000) and outline budgets for 2019/20 and 2020/21.</p> <p><b>Revised action:</b></p> <p>We consider the Library's financial planning appropriate, and would advise the finance team to continue developing robust plans for the medium term (potentially forecasting for a 5-year period).</p> <p><b>CLOSED.</b></p>
<b>b/f</b>	<p><b>Publication of Board agenda and papers</b></p>	<p>In an effort to improve transparency, we recommend NLS consider publishing Board agendas and papers, in</p>	<p><b>Updated response:</b></p> <p>This point was considered by the Governance Committee in</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	Board agendas and papers are not currently published on the Library's website for members of the public to view.	addition to the minutes currently provided.	<p>2017/18. Management consider it appropriate to publish Board minutes on the website, and have included contact details for Board papers to made available on request. This is considered appropriate for the Library.</p> <p><b>Revised action:</b></p> <p>No further action required. <b>CLOSED.</b></p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and financial statements and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates and accounting policies.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We substantively tested a sample of journal entries and agreed to source documentation. There were no issues to report.</p> <p>We reviewed accounting policies in the financial statements. We have deemed these to be appropriate for NLS, with some minor updates to their policies on fixed assets recommended.</p> <p>We carried out testing of creditors and debtors balances to ensure they were posted to the correct financial year. There were no matters to report.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>NLS receives income and donations from various sources, in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud which requires an audit response. The Code of Audit Practice expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure, for public sector bodies.</p>	<p>Analytical procedures on income and expenditure streams.</p> <p>Detailed substantive testing of income and expenditure focusing on the areas of greatest risk.</p> <p>Audit work on the National Fraud Initiative data matches.</p>	<p>Sample testing of income and expenditure transactions was satisfactory.</p> <p>We assessed the controls in place for both income and expenditure recognition and undertook substantive testing of material year end balances focusing on external income transactions. No issues were identified and we were able to conclude that controls were operating effectively.</p> <p>NLS are pro-active in investigation of data matches and no fraud or error has been found in the latest exercise.</p>
<p><b>3 Estimation and judgements</b></p> <p>There is a degree of subjectivity in the measurement and valuation of material account areas of fixed assets and accruals. This subjectivity represents an increased risk of</p>	<p>Focused substantive testing during the financial statements audit of key areas.</p> <p>Review of accounting policies to ensure these are reasonable and in line with the accounting framework.</p>	<p>Our substantive testing of both fixed assets and accruals did not identify any issues.</p> <p>The Library's annual leave accrual has been revised to provide a more accurate estimation of their liability at year-end.</p>

Audit Risk	Assurance procedure	Results and conclusions
misstatement in the financial statements.	Review of the valuer's credentials to ensure indexation factors applied to fixed assets are from a reliable source	We are satisfied that the external valuer has the necessary qualifications to provide indexation factors, and the Library's valuation of fixed assets is reasonable.











### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p><b>4 Cyber security</b></p> <p>The Scottish Government has issued a Public Sector Action Plan ('Cyber Essentials') which requires all public sector bodies to carry out work in relation to their cyber security arrangements. This will require NLS to carry out a comprehensive assessment and accreditation with Cyber Essentials Plus to demonstrate measures are in place to reduce this risk of cyber attacks.</p>	<p>Monitor ongoing work within the IT department to ensure the Public Sector Action Plan is being followed.</p> <p>Review business continuity activity and relevant policies and plans.</p>	<p>Recommendation 1 in <a href="#">Appendix 1</a> provides our findings for this point.</p>
<p><b>5 Information governance</b></p> <p>We reported last year that the Library is overdue to review its Information Security Policy (dated 2013). This policy is currently being revised. The new EU General Data Protection Regulation (GDPR) comes into force for all public bodies in May 2018. Failure to comply with new data handling arrangements could potentially result in the Library incurring fines. The Information Security Policy should be updated to take account of the GDPR.</p>	<p>Monitor process for reviewing policies and procedures.</p> <p>Ensure policies are fit for purpose and made available to staff.</p> <p>Review ongoing project plan for GDPR implementation.</p>	<p>A new Data Protection Policy was recently updated in April 2018 and reflects GDPR arrangements. This sits alongside a refreshed Information Security Policy which was updated in January 2018.</p> <p>All staff training on data protection was provided in recent months.</p> <p>The Library has created an Information Asset Register, internally named the 'Personal Data Register'. This is a key requirement of GDPR.</p> <p>Many other GDPR requirements have now been fully implemented, but with some key actions still in progress as at June 2018.</p>

# Appendix 3

## Summary of national performance reports 2017/18



		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

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