

National Library of Scotland

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

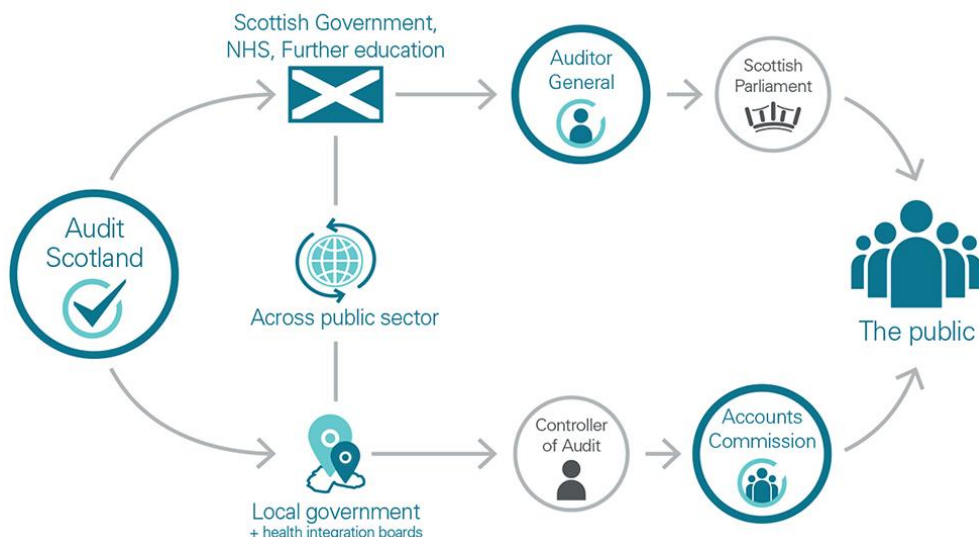
Prepared for National Library of Scotland
January 2020



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.

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


Adding value


3. We aim to add value to the National Library of Scotland (referred to as 'NLS' and 'the Library' throughout) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Library promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with management, attendance at Audit Committee meetings and review of supporting information, we have identified the following significant risk for the Library. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Although we have not identified any specific risks of management override of control at the Library, Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates and accounting policies. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.

	Audit Risk	Source of assurance	Planned audit work
2	<p>Risk of material misstatement caused by fraud in income and expenditure recognition</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 ISA240, 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>Effective budget monitoring by management and the board.</p> <p>Internal audit coverage.</p>	<ul style="list-style-type: none"> Analytical procedures on income and expenditure streams. Detailed testing of income and expenditure transactions focusing on the areas of greatest risk. Audit work on the National Fraud Initiative data matches.
3	<p>Revaluation of land and buildings</p> <p>An independent revaluation of the Library's land and buildings is scheduled for 2019/20, as part of a 5-year cycle. This exercise is being carried out by a chartered surveyor and has the potential to significantly affect the value of the Library's assets on the Balance Sheet. This raises a risk that asset valuations will not be properly adjusted and accounted for in the financial statements.</p>	<p>A qualified surveyor, used by the Scottish Government, is carrying out this assessment.</p> <p>The accounting treatment for fixed assets will be in accordance with the SORP accounting framework.</p>	<ul style="list-style-type: none"> Detailed review of double entry bookkeeping of revaluation adjustments. Review of accounting policies. Review of valuer reports and qualifications to check the assessment (work of an expert) is appropriate.
Wider dimension risks			
4	<p>Cyber security</p> <p>The Library has scope to improve its cyber security arrangements. NLS has recently been re-certified Cyber Essentials status in December 2019. However, there remains a number of recommendations outstanding from the Cyber Essentials Compliance Report which indicates further work is required if the Library is to gain Cyber Essentials Plus accreditation.</p> <p>There is a risk of data loss, ransomware and reputational damage while the Library is exposed to cyber attacks.</p>	<p>IT services are monitoring this risk in its departmental risk register.</p> <p>All IT staff have been instructed to follow best-practice in Cyber Security and Information Security, particularly when procuring new systems and maintaining existing systems.</p> <p>IT services are working towards achieving Cyber Essentials Plus accreditation in 2020/21.</p>	<ul style="list-style-type: none"> Monitor progress of cyber security improvements. Ensure business continuity and IT security policies are appropriate. Discuss cyber security arrangements with IT senior officers.

Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All of our planned outputs are detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk after the Library's annual report and financial statements have been laid before the Scottish Parliament.

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to management to confirm factual accuracy.

7. We will provide an independent auditor's report to NLS, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the NLS annual report and financial statements. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2

2019/20 Audit outputs

Audit Output	Latest date	Committee Date
Annual Audit Plan	28 February 2020	10 February 2020
Annual Audit Report	31 October 2020	10 August 2020
Independent Auditor's Report	30 September 2020	30 September 2020 <i>(Board approval)</i>

Audit fee

8. The audit fee for the 2019/20 audit of the Library is £21,090 (2018/19: £20,810). In determining the audit fee, we have taken account of the risk exposure of NLS, the planned management assurances in place and internal audit arrangements. Our audit approach assumes receipt of the unaudited annual report and financial statements for the year ended 31st March 2020, with a complete working papers package, on 16 June 2020.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to use the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

10. National Library of Scotland have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

11. The audit of the annual report and financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

13. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

14. The financial statements audit will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of National Library of Scotland and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how NLS will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

15. We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of NLS and its income and expenditure for the year then ended 31st March 2020,
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements for charitable bodies;
- the regularity of the expenditure and income.

Other information in the annual report

16. We review and report on other information published within the annual report including the governance statement. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

17. We also review the content of the Annual Report of the Board for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

18. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

19. We calculate materiality at different levels as described below. The calculated materiality values for the Library are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

Exhibit 3

Materiality values


Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.25% of total assets for the year ended 31 March 2019 based on the latest audited accounts. 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.	£1.5 million
Performance materiality – 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.	£1.1 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2% of planning materiality. We have ensured this threshold is reasonable to allow appropriate testing of income and expenditure items.	£30,000

Timetable

20. To support the efficient use of resources it is critical that a timetable is agreed with us to produce the unaudited financial statements. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual report and financial statements with complete working papers package	16 June 2020
Latest date for final clearance meeting with Director of Business Support	26 June 2020
Agreement of audited unsigned financial statements; issue of draft Annual Audit Report to those charged with governance	27 July 2020
Issue of Letter of Representation and proposed independent auditor's report	10 August 2020
Presentation of our Annual Audit Report to the Audit Committee	10 August 2020
Approval of the NLS annual report and financial statements by the Board; independent auditor's report signed	30 September 2020

Internal audit

21. Internal audit is provided by BDO. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

22. As BDO are the internal auditors for several 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). We completed this review in November 2019 and concluded that BDO's policies and practices are compliant with the PSIAS.

23. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Therefore, we will also complete a local review of internal audit arrangements for NLS and internal audit plans. We intend to consider closely the results of their work, particularly their review of the Library's Financial Planning. We will consider internal audit findings for the purposes of our wider dimension audit. However, as we intend to focus our external audit on substantive testing, we will not place formal assurance on the work of internal audit to support our audit opinion on the financial statements. We will report any significant findings to the Audit Committee in due course.

Whole of Government Accounts

24. The Code of Audit Practice requires appointed external auditors to review and report on whole of government accounts (WGA) returns prepared by audited bodies. As in prior years, external auditors of Central Government entities are required to certify 2019/20 WGA returns. We do not expect NLS to be within the boundary determined by HM Treasury for WGA for the 2019/20 year. We will, however, monitor this position throughout the year and report accordingly following the year-end.

Audit dimensions

25. Our audit is based on four audit dimensions that frame the wider scope of public audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

Financial sustainability

26. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as short term (up to two years), medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether NLS can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

27. The Library continue to face challenges regarding its financial sustainability and, like other public sector bodies, have faced delays in obtaining their funding allocation from the Scottish Government for 2020/21 due to the UK elections and EU withdrawal implications. The Library has secured additional funding from Scottish Government in 2019/20 to cover pension cost increases, but funding for future pay costs remain uncertain until the 2020/21 budget is announced. NLS also relies on additional income to achieve its financial targets each year. Therefore, a priority NLS face is continuing to ensure additional income sources are managed effectively.

28. Looking beyond 2019/20, NLS may face a more challenging budget if the Scottish Government continue to only offer incremental increase to Grant-In-Aid funding. Management have advised they will be able to revise their financial forecasts and budget for 2020/21 soon after the budget announcement on 6 February 2020.

Financial management

29. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether NLS has arrangements in place to ensure systems of internal control are operating effectively
- whether NLS can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how NLS has assured itself that its financial capacity and skills are appropriate
- whether NLS has established appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

30. We are also required to assess the risk of fraud and corruption in the procurement function and report, where relevant, on the arrangements to counter the risk in either the 2019/20 or 2020/21 Annual Audit Reports. We agreed with the management that work in this area will be carried out this year and any issues will be reported in our Annual Audit Report.

Governance and transparency

31. 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.

32. NLS has a number of governance documents in place, including Financial Regulations, Standing Orders and Scheme of Delegation which form key parts of good governance arrangements. These are reviewed biennially with the latest review dated September 2019. The documents provide good coverage of the Library's operations, are clear and easy to follow, and are an example of good governance practice. The Library also refreshed its Framework Document in 2019 which sets out its responsibilities and governance arrangements with the Scottish Government.

33. Additionally, we will continue to review, conclude and report on:

- whether the Library can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

Value for money

34. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NLS can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Best Value

35. Best value (BV) duties apply across the public sector. For sectors other than local government, the Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure BV. We will consider how the Library achieves BV and include any relevant findings in our Annual Audit Report.

Independence and objectivity

36. Auditors appointed by the Auditor General or Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

37. The engagement lead (i.e. appointed auditor) for NLS is Asif A Haseeb. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of National Library of Scotland.

38. The core audit team remains similar to last year. Key points of contact are Jonny Steen and Wojciech Kuzma.

Quality control

39. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

40. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

41. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

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