

National Library of Scotland

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for National Library of Scotland
January 2017

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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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with management, attendance at audit committee meetings and a review of supporting information we have identified the following main risk areas for National Library of Scotland (NLS). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</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>N/A.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>NLS receives income and donations from various sources, in addition to Scottish Government funding. The extent and complexity of income means that, per 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>Effective budget monitoring by management.</p> <p>Internal audit coverage.</p> <p>Fraud Response Policy, Bribery and Corruption Policy and Whistleblowing Policy in place.</p> <p>Participation in National Fraud Initiative.</p>	<p>Analytical procedures on income and expenditure streams.</p> <p>Detailed substantive testing of revenue and expenditure transactions focusing on the areas of greatest risk.</p> <p>Audit work on the National Fraud Initiative matches.</p>

Audit Risk	Management assurance	Planned audit work
<p>3 Accounting treatment for grants</p> <p>Under the Charities Statement of Recommended Practice (SORP) accounting framework, charities are required to recognise the full amount of grant income (where grants do not impose performance related conditions) immediately when there is evidence of entitlement. NLS should not defer such grant income.</p> <p>The outgoing auditors, PwC, noted in their 2015/16 report that total deferred income was £493,000 last year i.e. the value of income which potentially should have been recognised in year. This was below the materiality set by the auditors.</p> <p>Nevertheless, this presents a risk that grant income may not be accounted for in accordance with the SORP accounting framework in 2016/17.</p>	<p>Review grant conditions of each grant received, and apply revenue recognition criteria appropriately.</p> <p>Review latest Charities SORP accounting requirements.</p>	<p>Focused testing of material grant income at year-end to ensure revenue recognised in line with the Charities SORP.</p> <p>Review latest Charities SORP accounting requirements.</p>
Wider dimension risks		
<p>4 Financial sustainability</p> <p>NLS, similar to other public sector bodies, face challenges over future funding allocations during this period of economic uncertainty. The main financial target for NLS is to achieve a break even position at year-end. NLS are projecting to achieve a small underspend for financial year 2016/17.</p> <p>Although NLS are on course to meet its financial target in 2016/17, the organisation continues to face a risk over its financial sustainability in the coming years due to uncertainty over future funding allocations and income sources.</p>	<p>Effective budget monitoring by the finance team.</p> <p>Regular financial reporting to the Board and Audit Committee.</p> <p>Ongoing communication with the Scottish Government sponsor division.</p>	<p>Communicate closely with senior finance staff regarding budget plans and finance reports.</p> <p>Focused cut off testing at year-end to confirm expenditure and income has been accounted for in the correct financial year.</p>
<p>5 IT strategy and plans</p> <p>There is currently no Information Technology (IT) strategy or overarching IT plan in place at NLS. This should be a priority given NLS's objective to digitise their collection over the coming years and also due to the recent IT incidents which have occurred. Furthermore, there are IT</p>	<p>A new Head of Digital was appointed in September 2016. An IT strategy is planned for re-development.</p> <p>External consultation is being sought regarding the development of more robust continuity plans.</p>	<p>Monitor the development of the NLS IT strategy and review plans when available.</p> <p>Monitor the review process of IT policies and procedures and ensure these are fit for purpose.</p>

Audit Risk	Management assurance	Planned audit work
policies, such as the Information Security Policy and IT Business Continuity Plans, which require reviewing and updating to ensure these are fit for purpose.		

Reporting arrangements

3. Our audit reports document the results of the audit work performed during the year. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

4. 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.

5. We will provide an independent auditor's report to National Library of Scotland, Scottish Parliament and the Auditor General for Scotland summarising the results of our audit. 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 in the course of the audit.

6. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end i.e. 31 December.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	28 February 2017	13 February 2017
Annual Audit Report including ISA 260 requirements	31 August 2017	14 August 2017
Signed Independent Auditor's Report	30 September 2017	25 September 2017 (Board approval)

Audit fee

7. The audit fee for the 2016/17 audit of National Library of Scotland is £20,110 (2015/16: £21,460). In determining the audit fee we have taken account of the risk exposure of National Library of Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the full, unaudited Annual Report and Financial Statements for the year ended 31st March 2017, with a complete working papers package, on 15 June 2017.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from 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 outwith our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

9. Audited bodies 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.

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

Appointed auditor

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

12. 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

13. The statutory financial statements audit will be the foundation and source for the majority 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
- completing initial system reviews to assess the controls which operate within each of the NLS key financial systems
- identifying major transaction streams, balances and areas of estimation and understanding how National Library of Scotland 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.

14. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the audited bodies and their expenditure and income
- 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
- the consistency between the narrative in the Annual Report of the Board and the results in the financial statements
- the consistency of the governance statement.

Materiality

15. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for National Library of Scotland are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - 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 2016 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.	£1.04 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.	£0.78 million
Reporting threshold - 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.	£20,000

16. We review and report on other information published with the financial statements, including the Annual Report of the Board and Governance Statement. Any issues identified will be reported to the Audit Committee.

Timetable

17. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited National Library of Scotland's financial statements with complete working papers package	15 June 2017
Latest date for final clearance meeting with Associate Director of Business Support	18 July 2017
Agreement of audited unsigned financial statements; Issue of draft Annual Audit Report including ISA 260 report to those charged with governance	31 July 2017
Presentation of our Annual Audit Report to the Audit Committee	14 August 2017
Approval of the National Library of Scotland Annual Report and Financial Statements by the Board	25 September 2017
Independent auditor's report signed	25 September 2017

Internal audit

18. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to work cooperatively with internal audit and as part of our planning process we carried out an assessment of the internal audit function. Internal audit is provided by Henderson Loggie.

19. As Henderson Loggie are the internal auditors for a number of shared clients with Audit Scotland, we have 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 2016, concluded that Henderson Loggie's policies and practices are compliant with the PSIAS.

20. We have also completed a local review of internal audit arrangements for NLS and have concluded these arrangements to be satisfactory. Based on our review of internal audit plans, we intend to consider closely the results of their key financial controls review. As we intend to take a fully substantive approach to our audit, we will not place formal reliance on the work of internal audit to support our audit opinion on the financial statements.

21. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work in 2016/17, including their reviews of Business Continuity and Collections - Cataloguing.

National Fraud Initiative (NFI)

22. NFI is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

23. The current data matching exercise collected data in October 2016 and match investigation work began in January 2017. NLS is required to carry out its own investigation of data matches, as the organisation uses various financial systems which are independent from Scottish Government systems. We will monitor participation and progress with the NFI exercise and complete an audit questionnaire which will reflect the activity undertaken by NLS to June 2017. We will report the outcomes of our review in our Annual Audit Report.

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. External auditors of Central Government entities are required to certify 2016/17 WGA returns, as in prior years. We do not expect NLS to be within the boundary determined by HM Treasury for WGA for the 2016/17 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 sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



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 the body's financial sustainability in the longer term. We define this as 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. NLS faces challenges regarding its financial sustainability, as noted in Exhibit 1. This, in common with all Scottish public sector bodies, is as a result of uncertainty in future funding and due to the one year budget settlement received. NLS also relies on additional income to achieve its financial targets each year. Therefore a priority NLS face is ensuring additional income sources are managed effectively. NLS have a budget plan in place for 2017/18 and outline budget plans for the following two years. The Scottish Government draft budget settlement for 2017/18 has recently been announced, which will allow management to revise their plans accordingly.

Financial management

28. 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 for the prevention and detection of fraud and corruption
- how NLS is progressing in meeting its requirements under the National Fraud Initiative.

Governance and transparency

29. 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.

30. NLS has a number of governance documents in place, including Standing Orders and Scheme of Delegation which were reviewed in September 2016. Other key policies in place include the Code of Conduct, Financial Regulations, Fraud Response Policy and Whistleblowing Policy. We have reviewed these governance documents and can report that NLS has good policies in place which are reviewed and updated appropriately.

31. We will review, conclude and report on:

- whether NLS 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.

32. An additional area we will cover in our 2016/17 audit, as part of a previous Audit Scotland national performance audit, is to carry out a follow-up review of 'The Role of Boards'. This report was published in September 2010. Our follow up review will assess the governance, decision-making and scrutiny arrangements of the NLS Board. We will complete a questionnaire to assess the NLS arrangements in place, which we are required to submit internally at Audit Scotland by 30 June 2017. We will report the outcomes of our work in our Annual Audit Report.

Value for money

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

- NLS can provide evidence that it is demonstrating value for money in the use of its resources
- NLS can demonstrate that there is a clear link between money spent, output and outcomes delivered
- NLS can demonstrate that outcomes are improving
- There is sufficient focus on improvement and the pace of it.

Independence and objectivity

34. Auditors appointed by the Auditor General for Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

35. The engagement lead for National Library of Scotland 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.

Audit team

36. The local audit team will be led by the Senior Auditor, Jonny Steen, who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in [Exhibit 6](#). The audit team will be supplemented by additional staff during peak times.

Exhibit 6

External audit team

Name	Experience
Asif A Haseeb ACMA, MBA <i>Engagement Lead</i>	Asif joined Audit Scotland in October 2001. Before this he was chief auditor in a Scottish council. Asif has over 22 years of public sector audit experience and substantial financial management and board level experience in the public sector gained through non-executive membership of various boards (currently member of Court of the University of the West of Scotland). He is also a Justice of the Peace (lay magistrate).
Jonny Steen BAcc (Hons), CA <i>Senior Auditor</i>	Jonny has been with Audit Scotland for 5 years and qualified as a chartered accountant in 2015. He has experience of working in the NHS, having worked on the audit of NHS Greater Glasgow and Clyde for the last 4 years. He has also worked on a number of central government and local government audits.
Wojciech Kuzma BSc Econ, MLitt <i>Professional Trainee</i>	Wojciech joined Audit Scotland in 2015 as a professional trainee. Wojciech is mid-way through studying for the Institute of Chartered Accountants of Scotland qualification. He graduated in 2010 with a BSc Econ in Business and Management from Aberystwyth University, and in 2011 with MLitt International Business from the University of St. Andrews.

Quality control

37. 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.

38. 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

39. 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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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk