

# National Library of Scotland

2020/21 Annual Audit Report



 AUDIT SCOTLAND

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

August 2021

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# Key messages

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## 2020/21 annual report and accounts

- 1 Our audit opinions on the annual report and financial statements are unmodified.
- 2 The financial statements give a true and fair view of the state of affairs of the Library as at 31 March 2021.

## Financial management and sustainability

- 3 There is appropriate and effective financial management in place.
- 4 The Library has adapted its systems of internal control to reflect new ways of working and has maintained standards for the prevention and detection of fraud and error.
- 5 The board approved its 2021/22 budget and considered scenario planning for future years which take account of the continuing impact of Covid-19.

## Governance, transparency and value for money

- 6 There are appropriate and effective governance arrangements in place.
- 7 Governance arrangements have been adapted to reflect the impact of the Covid-19 pandemic.
- 8 There are satisfactory best value arrangements and performance reporting in place.
- 9 The Covid-19 pandemic has had a moderate impact on the Library's key performance indicators.

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# Introduction

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1. This report summarises the findings from our 2020/21 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 8 February 2021 meeting of the Audit Committee. This report comprises the findings from:
  - an audit of the Library's 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](#).
3. The main elements of our audit work in 2020/21 have been:
  - an audit of the Library's 2020/21 annual report and financial statements including the issue of an independent auditor's report setting out our opinions
  - a review of the Library's key financial systems
  - consideration of the four audit dimensions.
4. The global coronavirus pandemic has had a moderate impact on the Library during 2020/21. There have been significant implications for the delivery of customer related services and fundraising. Other key performance measures have been largely unaffected.

## Adding value through the audit

5. We add value to the body through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations
  - sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
  - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Responsibilities and reporting

6. The Library 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.

- 7.** The Library is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.
- 8.** Our responsibilities as independent auditor are established by 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. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. 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 our audit. 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](#). It sets out specific recommendations, the responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

## Auditor Independence

- 11.** 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.
- 12.** 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 2020/21 audit fee of £21,600, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
- 13.** This report is addressed to both the Library 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) in due course.
- 14.** We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

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# 1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

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## Main judgements

Our audit opinions on the annual report and financial statements are unmodified.

The financial statements give a true and fair view of the state of affairs of the Library as at 31 March 2021.

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## Our audit opinions on the annual report and financial statements are unmodified

**15.** The annual report and financial statements for the year ended 31 March 2021 are due to be approved by the board on 29 September 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the information provided 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.

## The Covid-19 pandemic had a limited impact on audit evidence

**16.** The working papers provided to support the accounts were of a good standard and the audit team received support from finance officers which helped ensure the final accounts audit process ran smoothly.

## There were no delays in preparing and auditing the annual report and financial statements

**17.** As a result of the continuing impact of Covid-19 the Scottish Government extended the deadline for submission of central government audited annual reports and accounts from 30 June 2021 to 31 August 2021. This mirrored the 2019/20 arrangements.

**18.** The unaudited annual report and financial statements were received in line with our agreed audit timetable on 16 June 2021. Covid-19 had a limited impact on the audit process.

## Whole of Government Accounts (WGA)

**19.** In accordance with the WGA guidance we plan to complete the required assurance statement and submit to the National Audit Office (NAO) by the end of September 2021, after board approval and audit certification of the NLS financial statements.

## Overall materiality is £1.5 million

**20.** Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual report and financial statements and we confirmed that the levels remained appropriate. The materiality values are summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

| Materiality level       | Amount       |
|-------------------------|--------------|
| Overall materiality     | £1.5 million |
| Performance materiality | £1.2 million |
| Reporting threshold     | £30 thousand |

Source: Audit Scotland

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## [Appendix 2](#) identifies the main risks of material misstatement and our audit work to address these

**21.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and financial statements and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

## We have significant findings to report on the annual report and financial statements

**22.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have reported one issue from the work done on the identified risks of material misstatement, as summarised in [Exhibit 2](#).

## Exhibit 2

### Significant findings from the audit of financial statements

| Issue  | Resolution  |
|--|---|
| <p><b>1. Indices used for valuations required updating</b></p> <p>As explained in the Library's accounting policies, in years where a full valuation is not carried out, the value of the Library's land and buildings is updated using indices. A full valuation was not carried out during 2020/21 and therefore valuations at 31 March 2021 had been updated using indices. As part of our audit we identified that the indices applied in 2020/21 were estimates from January 2020 and that more up-to-date indices should have been used in order to reflect current market conditions.</p> | <p>Management obtained updated indices and the values of land and buildings at 31 March 2021 in the financial statements were updated using this information. This resulted in the net book value of tangible assets decreasing by £3.8 million in the Balance Sheet and the depreciation charge for the year included in the Statement of Financial Activities decreasing by £0.2 million.</p> |

### Identified misstatements above our performance materiality were adjusted in the accounts. Due to the isolated nature of the error, our audit procedures did not need to be revised.

**23.** As reported in [Exhibit 2](#) above, misstatements of £4.0 million were identified in the financial statements. We reviewed the nature and cause of this misstatement and have concluded that it arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

**24.** We also identified one issue relating to the presentation of lease commitments in note 10 to the financial statements. The amount due after 5 years in the note was understated by £0.1 million. This has been updated for the final version of the accounts and does not impact on figures in the Statement of Financial Activities or Balance Sheet.

**25.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted all identified misstatements above our reporting threshold; there are no unadjusted errors to report. Presentational adjustments to the financial statements were also identified and adjusted by management.

### Progress was made on prior year recommendations

**26.** The Library has made some progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

**27.** From discussion with NLS management the following progression has been made on prior year recommendations:

- Cyber security is an ongoing risk for NLS, and the Library did not manage to achieve reaccreditation in Cyber Essentials due to changing requirements. NLS are continuing to work toward achieving cyber essentials plus, and have enlisted a third party company to help achieve this.
- Procurement training for staff has been successfully implemented, with a second annual procurement quiz ongoing currently.
- Revision of budget forecasts to account for the impacts of Covid-19 has been successfully implemented.
- Title deeds for two of NLS' properties (George IV Bridge and Sighthill) is an ongoing risk. An application for ownership of Sighthill building has been lodged with the land registry this year. The Scottish Government have approved the Library registering George IV Bridge, however the Library are still waiting on engagement from neighbouring parties regarding boundaries.

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## **Recommendation 1**

We conclude that the Library's cyber security remains an ongoing risk and is an area for improvement. The Library should continue its work towards achieving Cyber Essentials Plus status.

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## 2. Financial management

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

### Main judgements

NLS has appropriate and effective financial management in place.

The Library has adapted its systems of internal control to reflect new ways of working and has maintained standards for the prevention and detection of fraud and error.

### The body operated within its budget in 2020/21

**28.** The main financial objective for the body is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

**29.** The Library has reported an outturn of £19.7 million against its overall budget for 2020/21 of £20.4 million with an underspend of £0.7 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 3](#).

### Exhibit 3

#### Performance against DEL in 2020/21

| Performance                               | Final budget<br>£m | Outturn<br>£m | Over/(under) spend<br>£m |
|---|--------------------|---------------|--------------------------|
| Resource DEL                              | 14.6               | 14.6          | (0.0)                    |
| Ring-fenced DEL<br>(Non-Cash items)       | 3.5                | 3.2           | (0.3)                    |
| Capital DEL<br>(Including purchase grant) | 2.3                | 1.9           | (0.4)                    |
| <b>Total DEL</b>                          | <b>20.4</b>        | <b>19.7</b>   | <b>(0.7)</b>             |

Source: 2020/21 NLS annual report and financial statements

## Budget processes were appropriate. There was limited financial impact due to Covid-19

**30.** A large element of the Library's resource expenditure consists of staff costs, which amounted to £12.1 million. Expenditure is split into the various charitable activities of the Library. Collections Development and User Access to Collections continue to be the most significant areas of spend. Due to Covid-19, there was an underspend of £372 thousand for capital expenditure related to a slow down in capacity to purchase new collection items.

**31.** We reviewed the Library's budget setting and monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at Audit Committees we confirmed that senior management and trustees continue to receive regular, timely and up to date financial information on the financial position. We concluded that NLS has effective budgetary processes that allow board members and officers to carry out effective scrutiny of its finances.

## Financial systems of internal control are operating effectively

**32.** 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 the body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**33.** During our interim audit work in March 2021 we reviewed key financial systems and assessed controls in the following areas: the general ledger, creditors, debtors, payroll, and cash & banking.

**34.** We confirmed our understanding of the key controls, carried out walkthroughs of each control and concluded that they are suitably designed to detect and/or prevent risk of material misstatement. 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 resulting in a material misstatement in the financial statements.

## Internal Audit

**35.** The Library's internal audit function is carried out by BDO. The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive' to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2020/21 is that *'The risk management activities and controls in the majority of areas which we examined were found to be suitably designed to achieve the specific risk management, control and governance arrangements. Based on our verification reviews and sample testing, the risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute assurance that the related risk management, control and governance objectives were achieved for the period under review'*.

**36.** We reviewed the Library's internal audit function in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to

determine the extent to which we could use the work of internal audit. As our audit of the accounts is focused on substantive testing, we have not used the work of internal audit to support our opinion on the financial statements. We consider internal audit reports and findings to provide assurance over the wider audit dimensions we comment on in this report.

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

**37.** NLS is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**38.** We have reviewed the arrangements in place to maintain standards of conduct including their risk management, fraud and whistleblowing policies. We concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities.

### **Good practice**

**39.** The Library maintains a detailed schedule of policies and compliance documents. This ensures reviews are conducted in a timely manner and in line with targets set by management.

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## 3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

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### Main judgements

NLS has approved its 2021/22 budget and prepared scenario planning for future financial years. These forecasts have taken account of the continuing impact of Covid-19.

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### NLS' medium-term financial plan has been revised to reflect the impact of the Covid-19 pandemic

**40.** The financial impact of the pandemic on NLS is likely to extend across several years, and the Library has acknowledged this in their most recent budget. Ongoing pressures on Library generated income is a potential medium term financial risk.

**41.** The budget for 2021/22 was presented to the Board on 31 March 2021. The budget includes a forecast of £17.8 million total expenditure for the year. This is matched by £17.8 million of income. £16.6 million grant in aid will be received from Scottish Government. This funding will therefore remain the Library's main source of income (93%). This is comprised of £14.9 million for revenue and £1.7 million for capital.

**42.** The budget acknowledges that there are uncertainties, in particular, how much progress will be made in containing/living with Covid-19, when the Library will return to 'normal' service and what that will look like, how quickly might growth return to the economy and how hard the recovery might be. The 2021/22 budget also notes that it will need to be revisited during the year in response to the Covid-19 situation and/or the result of any mid-year changes in Scottish Government budgets.

**43.** The document also includes information on outline budgets for 2022/23 and 2023/24. This is presented as scenario planning, with positive, neutral and negative scenarios for each year. Both the neutral and negative scenarios indicate substantial and increasing deficits. The budget acknowledges that the Library continues to identify compensating savings and may need to speed implementation of these should the circumstances require.

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# 4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

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## Main judgements

NLS has appropriate and effective governance arrangements in place.

Governance arrangements have been adapted to reflect the impact of the Covid-19 pandemic.

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## The governance arrangements and controls operating throughout the Covid-19 pandemic have been appropriate

**44.** Through our interim audit procedures we have concluded that overall, the Library has appropriate governance arrangements in place.

**45.** The impact of Covid-19 from March 2020 has been set out in the Governance Statement in the Library's annual report and financial statements. We reported in last year's annual report on the revised governance arrangements introduced by the Library including:

- Hosting of online board meetings
- Improving online communication with staff and developing home working.

**46.** 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.

**47.** 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. Committee members are well-prepared and provide effective scrutiny and oversight.

**48.** The current National Librarian is due to retire in October 2021 and a new National Librarian has been appointed.

**49.** During the year the Library commissioned an effectiveness review of the Board by the Good Governance Institute, which was reported to the Board in March 2021. The report found that overall the Library is well governed and that the governance procedures work well, with some improvements included as

recommendations. The Board asked the Governance Committee to consider the recommendations and to provide a suggested action plan for implementation.

## **The Library operates in an open and transparent manner**

**50.** Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. 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.

**51.** 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.

**52.** A variety of information about the Library, the Board and its corporate governance arrangements continues to be 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 and open manner.

## **The Annual Report was of a good standard**

**53.** In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of the Library's narrative disclosures. The annual report should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

**54.** Our review of the annual report found that it was of a good standard and covered all areas and disclosures required. We found it to be well presented and informative.

# 5. Value for money

Using resources effectively and continually improving services

## Main judgements

NLS has satisfactory best value arrangements and performance reporting in place.

The Covid-19 pandemic has had a moderate impact on the Library's key performance indicators.

## The Library has satisfactory best value arrangements and performance reporting in place

**55.** [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

**56.** From our discussions with officers, review of Board and committee papers and attendance at committee meetings, we conclude that the Library has satisfactory best value arrangements and performance reporting in place.

## The Library were able to maintain some service performance levels despite the pandemic

**57.** The Library continued to monitor key performance indicators throughout the year with performance reported to the Board on a regular basis.

**58.** The Library were able to maintain performance on targets related to expansion and maintenance of their collections, and promotion of online presence. The pandemic primarily impacted targets related to collection access and public engagement. This is demonstrated by the information as summarised in [Exhibit 5](#).

## Exhibit 5

### Key performance indicators – trend analysis

|                             | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|-----------------------------|---------|---------|---------|---------|---------|
| 1. Environmental compliance | ● 98.7% | ● 99%   | ● 98%   | ● 98%   | ● 99.2% |

|   | 2016/17                   | 2017/18                   | 2018/19                   | 2019/20                   | 2020/21        |
|---|---------------------------|---------------------------|---------------------------|---------------------------|----------------|
| 2. Growth in the Collections  | Information not available | Information not available | Information not available | Information not available | ● 2.25 Million |
| 3. Percentage reduction in hidden collections                                 | ● 2.7 %                   | ● 7.2%                    | ● 9.1%                    | ● 22.8%                   | ● 35%          |
| 4. Percentage of collections available in a digital format                    | ● 11.8%                   | ● 13.9%                   | ● 19%                     | ● 22.7%                   | ● 26%          |
| 5. Number of research collaborations  | ● 20                      | ● 36                      | ● 47                      | ● 55                      | ● 60           |
| 6. Reading room visit   | ● 66,392                  | ● 68,787                  | ● 63,340                  | ● 68,371                  | ● 3,463        |
| 7. On-site learning and community events/Outreach learning & community events | ● 301                     | ● 371                     | ● 405                     | ● 371                     | ● 137          |
| 8. Exhibition visitors  | ● 132,063                 | ● 118,950                 | ● 51,398                  | ● 99,548                  | ● 5,248        |
| 9. Website usage (Web sessions)   | ● 4.1 Million             | ● 5.1 Million             | ● 5.4 Million             | ● 5.6 Million             | ● 7.0 Million  |
| 10. Staff absence rate (Days per employee)                                    | ● 6.2                     | ● 6.7                     | ● 7.4                     | ● 7.9                     | ● 3.7          |
| 11. Percentage raised against fundraising target                              | ● 63%                     | ● 91%                     | ● 185%                    | ● 116%                    | ● 39%          |
| 12. Central support costs as a percentage of income                           | ● 5.2%                    | ● 8.4%                    | ● 9.0%                    | ● 9.0%                    | ● 8.5%         |

Source: NLS Annual Report and Financial Statements from 2016/17 – 2020/21

**59.** The Library has developed a recovery plan, providing key milestones for the restoration of services during 2021 and has made progress against the action plan.

### **National performance audit reports**

**60.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to the body. These are outlined in [Appendix 3](#).

# Appendix 1. Action plan 2020/21

## 2020/21 recommendations

| Issue/risk  | Recommendation  | Agreed management action/timing   |
|---|---|---|
| <p><b>1. Cyber security risk</b></p> <p>Cyber security remains an ongoing risk and officers are still working towards cyber essentials plus. Since last year the Library has lost its cyber essentials accreditation.</p> <p>Risk – There is a continued risk of data loss, ransomware and reputational damage while the Library is exposed to cyber-attacks.</p> | <p>Management should continue to make the required improvements to achieve Cyber Essentials and Cyber Essentials Plus status</p> <p><a href="#">Paragraph 27.</a></p> | <p><b>Status: In progress</b></p> <p>In 2020/21 the Library added Cyber security to the overall security board and a cyber steering group has been convened.</p> <p>A full risk and mitigation register has since been developed and actions to implement mitigations based on the criticality rather than targeting a specific certification, however we are working towards the Cyber Essentials certification with each step being made.</p> <p>We are also in the process of gaining board approval for a 'cloud first' strategy. A joint roadmap combining cloud and security will be created and presented to the board by December 2021.</p> <p>As well as many other projects relating to cyber, the Library are in the process of implementing mobile device management as a result of increased mobile devices through the pandemic as well as enforcing 2 Factor Authentication on all staff Single Sign-On systems.</p> |

| Issue/risk | Recommendation | Agreed management action/timing   |
|------------|----------------|---|
|            |                | <p>Replacement of the Library's firewall with improved VPN security has also been carried out this year.</p> <p><b>Responsible Officer:</b><br/>Associate Director of Digital</p> <p><b>Revised Date:</b> December 2021</p> |

## Follow-up of prior year recommendations

| Issue/risk  | Recommendation  | Agreed management action/timing  |
|---|---|--|
| <p><b>2. Title Deeds</b></p> <p>NLS still does not possess title deeds for two properties (George IV Bridge and Sighthill) included in the balance sheet.</p> <p>Risk – There is a risk that NLS does not have appropriate documentation justifying ownership and disclosure of these properties in the Library's financial statements.</p> | <p>We recommend that NLS and their lawyers follow up on the title deeds position for the Library's properties, since they make up majority of the tangible assets balance</p> | <p><b>Status: In progress</b></p> <p>In 2020/21 work has been ongoing to secure the title for these properties. For Sighthill an application has been lodged with the land registry to have the title placed into the Library's name. For George IV Bridge discussions are still ongoing with neighbours to establish interest/the boundaries of the site.</p> <p><b>Revised action:</b> During 2021/22 we will be progressing work to register title of George IV Bridge in the Library's name. The title to this site is complex with the south part held by Scottish Ministers, the north under licence to the Faculty of Advocates, the Upper Yard by the Faculty of Advocates and the Lower Yard by the Scottish Courts Service.</p> <p><b>Responsible officer:</b><br/>Director of Business Support</p> <p><b>Revised date:</b> March 2022</p> |

| Issue/risk  | Recommendation   | Agreed management action/timing   |
|---|--|---|
| <p><b>3. Procurement training for staff</b></p> <p>Our review of procurement at the Library concluded that it would be beneficial to introduce refresher training for procurement related staff.</p> <p>Risk – There is a risk that staff do not follow the most up to date procurement guidance and best practice if regular training is not provided.</p> | <p>Refresher training should be considered for relevant staff, such as those with Delegated Purchase Authority</p>   | <p><b>Status: Complete</b></p> <p>From our discussion with the responsible officer we confirmed that an annual procurement quiz was launched last year. This is currently being run for the second time, and looks to test relevant staff knowledge of procurement processes and practices at the Library.</p>  |
| <p><b>4. Revision of budget forecasts</b></p> <p>We recommended that NLS update their budget forecasts to account for the financial impact of the Covid 19 pandemic as the outlook becomes clearer.</p> <p>Risk – There is a risk that the Library’s future financial sustainability will be adversely affected by Covid-19 in future years.</p>            | <p>Budget forecasts should be revised to determine the impact of Covid-19 on the Library’s finances. The Strategic Risk Register should be reviewed to reassess financial related risks.</p> | <p><b>Status: Complete</b></p> <p>The most recent annual budget for 2021/22 was presented to the board on 31 March 2021. This showed adequate consideration of the potential impact of Covid-19 on the financial position of the Library in future years and produced conservative estimations of income based on the assumption of continued disruption. Although we consider this issue closed, continued monitoring and adaptation is required by NLS to address the continually shifting environment.</p> |

# Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

## Risks of material misstatement in the financial statements

| Audit risk   | Assurance procedure  | Results and conclusions  |
|--|--|--|
| <p><b>1. Risk of material misstatement caused by management override of controls</b></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> | <p><b>Results:</b> We tested a sample of journal entries and agreed to source documentations. There was no issues to report.</p> <p>We reviewed the accounting policies and estimates applied in the financial statements. We concluded that these were appropriate for NLS.</p> <p>We carried out testing of creditors and debtors balances to ensure they were valid and posted to the correct financial year. There were no matters to report.</p> <p><b>Conclusion:</b> Satisfactory</p> |
| <p><b>2. Risk of material misstatement caused by fraud over income and expenditure recognition</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 ISA240, there is an inherent risk of</p>  | <p>Effective budget monitoring by management and the board. Internal audit coverage.</p>                 | <p><b>Results:</b> 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 testig of material year end balances. No issues were identified, and we were able</p>  |

| Audit risk  | Assurance procedure  | Results and conclusions   |
|---|--|---|
| <p>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>to conclude that controls were operating effectively.<br/><b>Conclusion:</b> Satisfactory</p>  |
| <p><b>3. Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of fixed assets and accruals. This subjectivity represents an increased risk of misstatement in the financial statements</p> | <p>Effective budget monitoring by management.</p> <p>Regular reporting to the Board, Audit Committee and Library Leadership Team.</p> <p>Indexation factors for the valuation of the Library's land and buildings are applied in the years where a full revaluation is not undertaken.</p> | <p><b>Results:</b> We reviewed the indexation calculation which was applied to NLS' buildings and found that the figures being used were out of date. This was causing a revaluation increase in the accounts, whereas more up to date figures were showing a reduction in value. See <a href="#">Exhibit 2</a>.</p> <p><b>Conclusion:</b> satisfactory</p> |

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

| Audit risk  | Assurance procedure  | Results and conclusions  |
|---|--|--|
| <p><b>4. Cyber security</b></p> <p>The Library has scope to improve its cyber security arrangements. NLS has recently been recertified 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. There is a risk of data loss, ransomware and reputational damage while the Library is exposed to cyber- attack.</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> | <p><b>Results:</b> See recommendation 1 in <a href="#">Appendix 1</a> above.</p> |

# Appendix 3. Summary of 2020/21 national performance reports

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April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

# National Library of Scotland

## 2020/21 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)