

sportscotland and sportscotland National Lottery Distribution Fund 2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for sportscotland board and the Auditor General for Scotland
September 2024

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Key messages

2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts for both sportscotland, its group and the sportscotland National Lottery Distribution Fund are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 Key risks arising from the audit of sportscotland and sportscotland National Lottery Distribution Fund (also referred to as “Lottery Fund”) Annual report and Accounts in my Annual Audit Plan were presented to the Audit Committee on 27 February 2024. There are no significant matters from that work to draw to the attention of the Committee.

Financial management

- 3 sportscotland had appropriate and effective financial management in place, with regular budget monitoring reports provided to the Board.
- 4 Key controls within the main financial systems were operating effectively, while standards for the prevention and detection of fraud remain appropriate.

Financial sustainability

- 5 sportscotland has effective and appropriate arrangements in place to continue to deliver services.
- 6 Good progress has been made by sportscotland in developing its approach to medium-term financial planning.

Vision, leadership, and governance

- 7 sportscotland has a clear vision which is supported by its corporate strategy and business plan.
- 8 The arrangements for supporting the preparation of the Governance Statement should be strengthened to ensure compliance with the Scottish Public Finance Manual.
- 9 We identified significant issues with the governance arrangements relating to an exit package for a member of the senior management team. One exit

package did not follow the rules and guidance as set out in the Scottish Public Finance Manual. We also found that sportscotland did not retain sufficient evidence to demonstrate the exit package had been subject to scrutiny or subject to a value for money assessment.

Use of resources to improve outcomes

- 10 sportscotland has effective and appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.
- 11 A revised performance measurement framework was approved by the Board.
- 12 sportscotland has not submitted its return for Whole of Government accounts for the last two years.

Introduction

1. This report summarises the findings from the 2023/24 audit of sportscotland and its group and the sportscotland National Lottery Distribution Fund (also referred to as “Lottery Fund”). The scope of the audit was set out in an Annual Audit Plan presented to the 27 February 2024 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from the audit of sportscotland, its group and the sportscotland National Lottery Distribution Fund annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [*Code of Audit Practice 2021*](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the Board of sportscotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

3. I, Pauline Murray, have been appointed by the Auditor General for Scotland as auditor of sportscotland and the Lottery Fund for the period from 2022/23 until 2026/27.

4. My team and I would like to thank Board members, Audit and Risk Committee members, the chief executive officer and other staff, particularly those in finance, for their cooperation and assistance in this year's audit, and we look forward to working together constructively over the course of the remainder of the five-year appointment.

Responsibilities and reporting

5. sportscotland has primary responsibility for ensuring the proper financial stewardship of public funds for sportscotland and the Lottery Fund. This includes preparing two separate annual report and accounts in accordance with the account's direction from the Scottish Ministers. sportscotland is also

responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. My responsibilities as the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021, supplementary guidance and International Standards on Auditing in the UK (ISAs).

7. Weaknesses or risks identified are only those which have come to the attention of the audit team 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 I raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. I can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. I can also confirm that I have not undertaken any non-audit related services and therefore the 2023/24 audit fee of audit fee of £38,800 for sportscotland and £30,290 for the Lottery Fund as set out in my 2023/24 Annual Audit Plan remains unchanged. I am not aware of any relationships that could compromise our objectivity and independence.

10. The annual audit adds value to sportscotland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts for both sportscotland, its group and the sportscotland National Lottery Distribution Fund are unmodified, i.e. the financial statements and related reports are free from material misstatement.

Material adjustments have been made to the annual report and accounts as a result of the audit process.

Audit opinions on the annual report and accounts are unmodified

11. The Board approved the annual report and accounts for sportscotland and its group, and the Lottery Fund for the year ended 31 March 2024 on 27 August 2024 (TBC). As reported in the independent auditor's reports, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the Remuneration and Staff Report was prepared in accordance with the Government Financial Reporting Manual
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the Government Financial Reporting Manual.

Overall materiality was assessed as £0.828 million for sportscotland and its group and £0.640 million for the Lottery Fund

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. My initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values for sportscotland group and the Lottery Fund

Materiality level	sportscotland	sportscotland Group	Lottery Fund
Planning materiality	£748,000	£828,000	£640,000
Performance materiality	£524,000	£579,000	£448,000
Reporting threshold	£37,000	£41,000	£32,000

Source: Audit Scotland

14. The overall materiality threshold was set with reference to gross expenditure which I judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 70% of overall materiality, reflecting our understanding of the entity and errors identified in the prior year audit.

16. It is my responsibility to request that all misstatements are corrected other than those below the reporting threshold. The final decision on making the correction lies with the Board.

Significant findings and key audit matters

17. Under ISA (UK) 260, I communicate significant findings from the audit to the board, including my view about the qualitative aspects of the board's accounting practices.

18. The Code of Audit Practice also requires me to highlight key audit matters which are defined in ISA (UK) 701 as those matter judged to be of most significance.

19. The significant findings and key audit matters are summarised in [Exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. IFRS 16 Implementation</p> <p>International Financial Reporting Standard (IFRS) 16 applied for the first time in 2022/23.</p> <p>Audit work in the current year identified the application of IFRS 16 had not been in accordance with the standard.</p> <p>From review of lease models applied by management in year, we identified the lease liability and right of use asset treatment was not consistent with the requirements of IFRS 16.</p>	<p>Management revised their IFRS 16 workings and updated their models.</p> <p>This has resulted in a prior year restatement with the impact of implementation of IFRS 16 for 2022/23 being:</p> <ul style="list-style-type: none"> • reduction in the opening gross right of use asset at 1 April 2022 by £4 million and removal of previously recognised accumulated depreciation. This resulted in a net increase of £0.4 million to opening net book value. • increase in the closing right of use asset as at 31st March 2023 by £0.408 million • decrease in the closing lease liability by £0.108 million. <p>The impact on the 2023/24 accounts as a result of the corrections has been:</p> <ul style="list-style-type: none"> • increase in the closing right of use asset as at 31st March 2024 by £0.416 million

Issue	Resolution
	<ul style="list-style-type: none"> decrease in the closing lease liability by £0.019 million. <p>Additional disclosures have been added to the accounts to detail the restatements.</p> <p>Recommendation 1 (Refer Appendix 1, action plan)</p>
<p>2. Property Dilapidations</p> <p>sportscotland recognised in year a new dilapidations provision for one property with a lease expiry date of May 2027.</p> <p>A dilapidations assessment for this property was carried out in July 2019. At that time, professional assessment was total costs expected of £0.618 million.</p> <p>The costs for restoration of this building have been omitted in error in prior years.</p>	<p>Management undertook an exercise to determine which works had been completed to date and considered the impact of inflation over the years on this cost estimate.</p> <p>Management reviewed the other property leases and assessed whilst repairs are required at the end of the leases, these are not deemed to be significant.</p> <p>This dilapidations figure has been revised by management to capture inflationary rises and has been included in the IFRS 16 restatements as noted above.</p> <p>The dilapidations figure resulted in:</p> <ul style="list-style-type: none"> an adjustment of £0.651 million to the opening right of use asset an increase of £0.651 million to provisions. <p>Recommendation 2 (Refer Appendix 1, action plan)</p>
<p>3. Remuneration and staff report</p> <p>There were several adjustments required to the remuneration and staff report. See paragraph 29.</p> <p>We identified significant issues with the governance arrangements relating to an exit package for a member of the senior management team. See paragraph 69</p> <p>Issues identified:</p> <ul style="list-style-type: none"> significant departures from the processes outlined in the Scottish Public 	<p>Management adjusted and reflected the disclosure changes required in the audited annual report and accounts.</p> <p>We have made two recommendations to address the significant issues identified with the governance arrangements.</p> <p>Recommendations 4 and 5 (Refer Appendix 1, action plan)</p>

Issue	Resolution
<p>Finance Manual (SPFM) in relation to the processes to be followed for one settlement agreement.</p> <ul style="list-style-type: none"> • lack of evidence retained that the Board or Committees had oversight on the decision making process to agree the settlement agreement and its contents. • sportscotland did not retain sufficient evidence that the exit package has been necessary, justifiable and subject to a value for money assessment. 	
<p>4. IAS 19 Pension costs</p> <p>The IAS 19 report provided by the actuary used to produce the accounts did not include the enhanced disclosure on the asset ceiling adjusted March 2023 position which has associated financial impacts of the 2023/24 financial statements.</p>	<p>Management obtained a revised IAS 19 report and amended the pensions disclosures as appropriate.</p> <p>This has resulted in adjustments to the financial statements as below:</p> <ul style="list-style-type: none"> • a decrease to IAS 19 interest costs of £1.3 million. • an increase in actuarial losses recognised of £4.98 million.

Source: Audit Scotland

Audit work responded to the risks of material misstatement we identified in the annual report and accounts

20. My team and I have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in my 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> – Assess the design and implementation of controls over journal entry processing. – Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. – Test journals at the year-end and post-closing entries and focus on significant risk areas. – Consider the need to test journal entries and other adjustments throughout the year. – Evaluate significant transactions outside the normal course of business. – Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. – Review the work of the component auditor in this area. 	<p>We did not identify any incidents of management override of controls through our audit testing.</p>

Source: Audit Scotland

21. In addition, I identified “areas of audit focus” in my 2023/24 Annual Audit Plan where I considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **Valuation of pension costs:** We considered the reasonableness of actuarial estimates on material elements of the valuation and the accuracy of information provided to the actuary by sportscotland. We also ensured the correct accounting treatment of the pension asset. The professional competence of the actuary was also evaluated. There were several adjustments required to pensions disclosure and associated workings including:
 - Prior year asset ceiling calculations have an impact on current year disclosures and the initial IAS 19 report requested by sportscotland did not include the additional disclosures. sportscotland obtained a revised IAS 19 report from the actuary. [See Exhibit 2.](#)

- Material adjustments were made to the financial statements to reflect the effect of the asset ceiling in line with the updated IAS 19 report. [See Exhibit 2.](#)
- An explanatory paragraph which explains why the pension surplus is not fully realisable in the form of either refunds or reduction in employer's contributions was also added.
- Management revised the pension disclosures and we are satisfied the information is now appropriately disclosed within the annual report and accounts. No other issues were identified as part of this work.
- **Valuation of investment property** – We reviewed the information provided to the external valuer by sportscotland and evaluated the professional competence of the valuer. Our audit work identified that management oversight of the valuation could be strengthened. There was limited evidence to demonstrate how management assured themselves the data inputs and assumptions applied by the valuer were appropriate. We understand there are plans to sell the asset which would result in a different classification and valuation basis in the financial statements next year.

22. For sportscotland Group we also identified the following area of audit focus on the consolidation of land and building values in the group accounts:

- **Estimation in the valuation of land and buildings** – There can be a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.

23. We had planned to place reliance on the work of the component auditor and obtain appropriate evidence to support our group opinion on the basis that the valuation work would be applied in the Trust Company accounts. Management did not apply this to the Trust Company accounts because those accounts are prepared in accordance with FRS 102 whilst sportscotland Group accounts are in accordance with the FReM. The FReM is more prescriptive around what is considered an appropriate valuation method.

24. Land and buildings are professionally revalued every five years. The next valuation will be due on 31 March 2025. In intervening years, sportscotland conduct a review to assess whether there has been a material impact on cost. As a result of their assessment considering rebuild costs, an adjustment was made to ensure the carrying value did not differ materially from current value. We reviewed management's work in this area and no significant issues were identified.

We identified material misstatements which were adjusted in sportscotland's financial statements

25. We identified a number of misstatements in the current year in sportscotland's financial statements which included those detailed in [Exhibit 2](#) relating to IFRS 16 and IAS 19 pension costs.

26. There were also a small number of non-material misstatements totalling £0.35 million which management corrected.

27. Adjustments were processed to the financial statements and we concluded that further audit procedures were not required. The misstatements arose from issues that were isolated and identified in their entirety and therefore do not indicate further systemic error.

28. We identified a number of misstatements in the disclosures in the annual report and accounts which were corrected by management. The most significant are detailed below.

29. There were several adjustments required to the Remuneration and Staff Report including:

- the exit package disclosure was updated to include additional payments made for annual leave
- an explanation was required on the nature of exit packages
- ranges of remuneration of senior staff were updated
- adjustments to the fair pay disclosure percentages.

30. There were also several adjustments required to the non-current assets disclosure note and associated workings provided for audit:

- entries in the ledger did not agree to the figures in the disclosure notes
- the Fixed Asset register did not agree to the figures disclosed in the accounts
- there was no evidence of a review of assets at year end to assess whether they had been disposed or impaired
- an explanatory paragraph was added to include the valuation dates of assets and details on the valuer in line with FReM requirements
- a new line was added to the Statement of Financial Position to separately report the balance for asset held for sale.

All misstatements identified in the Lottery Fund were corrected

31. For the Lottery Fund accounts, adjustments were made to the face of the Statement of Comprehensive Net Expenditure and associated notes to disclose the share of lottery proceeds (£27.92 million) and investment income (£1.36 million) of the National Lottery Distribution Fund. These were presented as a combined total, but both amounts were individually material, so require to be disclosed separately in line with Annex A. This had no impact to the total income figure disclosed.

The unaudited annual report and accounts were received in line with the agreed audit timetable

32. The unaudited annual report and accounts were received in line with the agreed audit timetable on 3 June 2024.

Reasonable progress was made on prior year recommendations

33. sportscotland has made reasonable progress in implementing the agreed 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](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

sportscotland had appropriate and effective financial management in place, with regular budget monitoring reports provided to the Board.

Key controls within the main financial systems were operating effectively, while standards for the prevention and detection of fraud remain appropriate.

sportscotland operated within its revised budget in 2023/24

34. The main financial objective for sportscotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. For the Lottery Fund, the main objective is that the payment of awards and associated administrative costs are within the amounts called down from the National Lottery Distribution Fund (NLDF).

35. As a Non-Departmental Public Body, sportscotland is primarily funded by the Scottish Government by way of Grant in Aid. For 2023/24, the single entity accounts for sportscotland show that it was due to receive £35.35 million from the Scottish Government.

36. Grant-in-aid income was supplemented by other group income of £5.30 million. This includes £3.95 million from sportscotland's charitable Trust Company and £1.40 million from other operating income.

37. sportscotland issued sports development and capital grants totalling to £20 million for 2023/24.

38. sportscotland has reported a net expenditure of £36.1 million against its overall budget for 2023/24. The general fund reserve has a surplus of £8.4 million.

39. Over a third of sportscotland group's expenditure consists of staff costs, which amounted to £13.7 million in 2023/24.

40. The sportscotland National Lottery Distribution Fund has reported income of £29.6 million and expenditure of £31.9 million. This results in a deficit after taxation of £2.3 million. The budgeted deficit was £5.97 million, which

constitutes a £3.6 million variance. This variance is attributed to an increase in national lottery funds and a reduction in planned expenditure.

Budget processes operating during 2023/24 were appropriate

41. We reviewed sportscotland’s budgetary processes and budget monitoring arrangements during 2023/24. The Board approved the 2023/24 budget in April 2023.

42. sportscotland’s budget has increased gradually over the past two years. The budget assumes a continuing growth of expenditure to support sporting activity in Scotland in 2023/24, including cost of living support for partners and investment in new Equality, Diversity and Inclusion projects working with partners over a planned two to four year period.

43. We observed that senior management and the Board continued to receive regular and accurate financial information on sportscotland’s financial position. Receiving regular, timely and up to date financial information supports sound decision making and effective scrutiny.

sportscotland has appropriate financial control arrangements in place

44. From our review of the design and implementation of systems of internal control relevant to our audit approach, we did not identify any significant internal control weaknesses which could affect sportscotland’s ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Internal audit

45. During 2023/24 sportscotland’s internal audit function was carried out by Azets. Their 2023/24 audit work is complete and their Annual Audit Report was presented to the Audit and Risk Committee on 27 February 2024.

46. Internal Audit’s opinion provided reasonable assurance with the exception of the management of sportscotland’s estates. “In our opinion, sportscotland has a framework of governance, risk management and controls that provides reasonable assurance regarding the effective and efficient achievement of objectives, except in relation to the management of sportscotland’s estates”.

47. In the prior year, internal audit identified significant weaknesses in the system of internal control, and potential non-compliance with legislation. Their 2023/24 opinion references their prior year findings and notes, “ we have verified that substantial progress has been made to address many of the identified issues, there remain outstanding significant issues. Within the current year our audit work also identified further issues in the management of health and safety at Glenmore Lodge alongside significant weaknesses in the management of sportscotland’s estates. Taken together, these demonstrate a failure to appropriately manage and mitigate risks for sportscotland, its staff and visitors across the estate.”

48. The Governance Statement presented to audit did not report the weaknesses identified by Internal Audit in relation to estates. The findings were reported to management and the Governance Statement updated to ensure this was reported.

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

49. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

50. sportscotland has adequate arrangements in place to prevent and detect fraud or other irregularities.

National Fraud Initiative

51. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The 2022/23 exercise concluded during 2023/24 financial year and the final report is due to be published later in 2024.

52. sportscotland are well engaged with the NFI exercise and have investigated and closed all matches identified. NFI progress and outcomes are reported regularly to the Audit and Risk Committee.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

sportscotland has effective and appropriate arrangements in place to continue to deliver services.

Good progress has been made by sportscotland in developing its approach to medium-term financial planning.

Good progress has been made by sportscotland in developing its approach to medium-term financial planning

53. sportscotland Board approved the 2024/25 budget in April 2024. There has been no decrease in Scottish Government funding for 2024/25.

54. A medium-term financial plan covers a period between 3 to 5 years and helps an organisation with planning for future spend and cost pressures.

55. sportscotland has been developing its approach to medium-term financial planning yet uncertainty around the Scottish Government budget presents challenges when developing longer-term financial plans.

56. The first draft of the Medium Term Financial Plan (MTFP) document was submitted to the Audit and Risk Committee in August 2023. Management have continued to work with the Audit and Risk Committee and the Board to develop its financial planning through the use of scenario planning.

57. A paper on Medium Term Financial Planning was taken to the sportscotland Board in April 2024 which detailed four scenarios. These scenarios include a combination of optimistic and pessimistic outlooks and covers both Scottish Government funding and National Lottery income. Management intend to develop this further over the course of the year with input from the Board as each scenario is reviewed.

There is continued uncertainty around National Lottery income projections due to the transfer of the licence earlier in the year

58. In February 2024, the third National Lottery licence transferred to the fourth licence. This transfer brought a new lottery operator, the first in 28 years.

59. There continues to be uncertainty around current National Lottery income projection for 2024/25 with no detailed forecasts. sportsotland has assumed an income of £28.6 million per annum for the next four years. Detailed forecasts are expected to be received once detailed operational and marketing assumptions are known.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

sportscotland has a clear vision which is supported by its corporate strategy and business plan.

The arrangements for supporting the preparation of the Governance Statement should be strengthened.

We identified significant issues with the governance arrangements relating to an exit package for a member of the senior management team.

sportscotland has a clear vision which is supported by its corporate strategy and business plan

60. sportscotland's business plan for 2023 onwards reflects how sportscotland will deliver its commitment to the corporate strategy, Sport For Life. In this strategy, the vision and mission are clearly defined.

61. The business plan is focused on the principles of Sport For Life but it now has inclusion at the centre with a strong focus on equalities.

62. sportscotland are committed to the Scottish Government's vision of a more active Scotland and the Active Scotland Outcomes Framework (ASOF), which contributes to the National Performance Framework. The corporate strategy supports delivery of the six Active Scotland outcomes detailed in the ASOF.

Improvements are required to the arrangements to support the governance statement

63. sportscotland's governance arrangements have been set out in the Governance Statement in both sportscotland's annual report and accounts and the Lottery Fund. A key part of the governance arrangements is the certificates

of assurance completed by directors. These certificates help inform the accountable officer's review of the effectiveness of the internal control system as senior management have responsibility for the development and maintenance of that internal control framework.

64. We requested copies of these certificates at the start of our audit fieldwork and were not provided with these certificates until late in the audit process. Per the Scottish Public Finance Manual (SPFM), assurances should be commissioned towards the end of the financial year to allow sufficient time for completion of the process to meet the timetable of the accounts.

65. We have reviewed the certificates and have identified areas for improvement:

- The format of the assurance statements are not in the form as set out in SPFM.
- The assurance statements reference that a review of internal control arrangements has been undertaken, but does not provide evidence on what the review considered. Per the SPFM, the certificates of assurance process should include the completion and review of internal control checklists. The internal control checklists per the SPFM cover areas including risk management, financial management, fraud, procurement, human resources, equality & diversity and compliance.
- Per the SPFM, these assurance certificates should be submitted for review to the Audit and Risk Committee together with a draft Governance Statement for signature by the Accountable Officer.

Recommendation 3

sportscotland should review the arrangements in place to support the preparation of its Governance Statement to ensure compliance with the SPFM going forward.

66. sportscotland has the appropriate governance structure in place which supports scrutiny, challenge and decision making. This is informed by our regular attendance at the Audit and Risk Committee and a review of board and other committee papers as appropriate.

67. In June 2024, a new Chair was appointed to sportscotland. The new chair has been a sportscotland board member since 2019 and Chair of the sportscotland Trust Company since 2022.

68. sportscotland has the appropriate governance structure in place to support effective scrutiny, challenge and decision making. Improvements are required to the arrangements to support the Governance Statement going forward.

We identified significant issues with the governance arrangements relating to an exit package for a member of the senior management team

69. The Scottish Public Finance Manual (SPFM) sets out the governance and procedures to be followed when an employee may be offered settlement, severance, early retirement or redundancy arrangement.

70. Our audit work identified significant departures from the processes outlined in the SPFM in relation to the processes to be followed for settlement agreements.

71. The process for settlement agreements under the SPFM per Annex A is shown in Exhibit 4 below:

Exhibit 4

Table shows the settlement agreement flowchart and reporting process

- **Step 1** - Public Body prepares Settlement Business Case with approval of Accountable Officer and seeks advice/clearance as required from SG Sponsor Team/Lead Contact
- **Step 2** - Business Case submitted to SG Sponsor Team/Lead Contact
- **Step 3** - SG Sponsor Team/Lead Contact send to the Severance Policy Team, Scottish Government People Directorate (SGPD), Finance Business Partner (FBP) and the Sponsor Director scrutiny and advice
- **Step 4** - The Severance Policy Team, SGPD, and FBP consider settlement case, provide scrutiny of the business case and employment information schedule. They may seek input from their Deputy Director as appropriate, they may recommend independent expert advice/referral to Ministers as required. They send their comments and advice to the SG Sponsor Team/Lead Contact
- **Step 5** - Sponsor Team/SG Lead Contact liaise with public body on any cases that breach severance policy and with Portfolio Cabinet Secretary for comments/views. Cabinet Secretary for Finance included in all Ministerial submissions for information
- **Step 6** - SG Sponsor Team/SG Lead Contact collate responses and provide feedback to public body (including Ministerial comments where appropriate)
- **Step 7** - Accountable Officer makes final decision on whether to proceed with settlement agreement

- **Step 8** - Public Body to notify Sponsor Team/Lead Contact, copying SG Sponsor Director and the Severance Policy Team if and when Settlement Agreement is finalised providing details of final agreement
- **Step 9** - Severance Policy Team reports annually to the Scottish Parliament on Settlement Agreements

Source: [Scottish Public Finance Manual, Annex A](#)

72. sportscotland did not prepare or submit a business case to the Scottish Government to seek advice or approval for this settlement agreement. As no business case was made available, there is a lack of transparency behind the decision-making process for the settlement agreement.

Recommendation 4

Management should ensure settlement agreements follow the rules and guidance as set out in the Scottish Public Finance Manual (SPFM).

73. The sportscotland Board meet every two months and there are two main Council Member committees – the Audit and Risk Committee and the People Development Committee. There is a lack of evidence that the Board or Committees were aware of the exit package or oversight on the decision-making process to agree the settlement agreement and the contents included.

74. The breakdown of the payment received as part of the settlement agreement is included in [Exhibit 5](#). We have included remuneration received in the prior year for transparency of total remuneration provided as part of the exit process.

Exhibit 5

Payments received as part of settlement agreement

Remuneration	Financial Year	Total
Garden Leave	2022/23	£24,055
Garden Leave	2023/24	£15,587
Arrears (pay award)	2023/24	£793
Termination (discretionary payment)	2023/24	£48,180

Remuneration	Financial Year	Total
Untaken Leave	2023/24	£7,319
Legal Fees	2023/24	£900
Total		£96,834

Source: sportscotland records

75. From the period 1st January 2023 through to 31st May 2023, the individual was placed on Garden Leave. During the period of garden leave, the individual received their normal salary and all contractual benefits. As part of the settlement agreement, it notes that from this period the individual will not perform any services for sportscotland unless at the discretion of sportscotland. Our understanding is the individual performed no services for sportscotland during the period of garden leave. The payments received as part of garden leave are included within the salary element in the remuneration report disclosures.

76. Per the SPFM, the final decision as to whether to enter into a Settlement Agreement will rest with the Accountable Officer for the public body.

77. The Scottish Parliament has expressed concern about the use of excessive discretionary payments in Settlement Agreements. Accountable Officers must ensure that where discretionary payments used, they are necessary, justifiable and demonstrate value for money. sportscotland did not retain sufficient evidence that the exit package has been necessary, justifiable and subject to a value for money assessment.

Recommendation 5

Management should ensure there is sufficient evidence to support the decision making and scrutiny over components of exit packages and that they are necessary, justifiable and have been subject to a value for money assessment.

Climate change arrangements

78. The Scottish Parliament has set a legally binding target of becoming net zero by 2045. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

79. sportscotland do not have a climate strategy. Management advise this is currently under review and plan to seek external support to help deliver this. The aim is to have a strategy approved by March 2025. We will keep this under review and consider as part of next year's audit.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

A revised performance measurement framework was approved by the Board.

sportscotland's arrangements continue to support the achievement of Best Value.

sportscotland has not submitted its return for Whole of Government accounts for the last two years.

sportscotland's arrangements continue to support the achievement of Best Value

80. [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.

A revised Performance Measurement Framework was approved by the Board

81. sportscotland uses its Performance Management Framework as the basis for the annual report and annual accounts performance summary.

82. We have previously reported on the need for sportscotland to develop its approach to performance reporting. We recommended the need to capture performance against objectives alongside trend information. We understood there were challenges in capturing data that underpinned the previous performance management framework.

83. We are pleased to report that sportscotland undertook a review of its Performance Measurement Framework and a revised framework was approved by the Board in April 2024.

84. sportscotland continues to develop its approach to performance and plans to include corporate services measures in the Performance Management Framework from 2024/25.

sportscotland's procurement arrangements contributes to securing best value

85. sportscotland conducts its purchasing in accordance with Public Sector procurement rules. These are principally the Procurement Reform Act 2014 and Public Contracts Regulations 2015.

86. The regulations determine sportscotland's Procurement Strategy which sets out the organisation's purchasing rules. Depending on the value of the requirements, different procurement routes are undertaken in order to test the market and obtain best value.

87. sportscotland makes use of public frameworks where possible. The Procurement Annual Report includes all procurement activity, contract awards and savings and is submitted to the Scottish Government annually.

sportscotland has not submitted its return for Whole of Government accounts for the last two years

88. Whole of Government Accounts (WGA) is the consolidated financial statements for all components of government in the UK. Most public bodies are required to submit returns for the preparation of WGA. The returns are consolidated into WGA by HM Treasury who are responsible for the process. WGA is audited at a UK level by the National Audit Office (NAO).

89. Appointed auditors in Scotland are required by the Code of Audit Practice, as part of their audit appointment, to examine and report on WGA returns prepared by Scottish audited bodies. Auditors are required to report the results of their examination in an Assurance Statement. The examination and reporting process performed by auditors is therefore described as auditor assurance.

90. Treasury prescribe a threshold for auditor assurance. No examination is required for bodies, such as sportscotland, who are below the threshold. However, auditors are still required to partially complete the Assurance Statement and submit it to the NAO. We have been unable to complete this work due to management failing to submit its WGA return.

Recommendation 6

Management should ensure it has the required processes in place to submit its Whole of Government Return.

Good practice

91. We have identified an area of good practice in sportscotland's approach to cyber resilience and information governance. sportscotland are participating in a pilot organised by the Scottish Government and HEFESTIS (Higher Education/Further Education Technology & Information Services).

92. HEFESTIS is a not-for-profit organisation set up by the higher and further education sector to support universities and colleges around cyber resilience and information governance.

93. The pilot's aim is to investigate whether offering similar services to NDPBs would be beneficial. Phase one of the pilot ran from January 2024 to the beginning of April 2024 and involved reviewing a gap analysis against the Scottish Public Sector Cyber Resilience Framework v2.0 and sportscotland's current arrangements.

94. Phase Two will involve building an improvement plan and working with HEFESTIS to move sportscotland towards baseline compliance.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. IFRS 16 model</p> <p>A number of issues were identified with how leases were accounted for under IFRS 16.</p> <p>Risk – There is a risk that leases are not accounted for in accordance with accounting standards.</p>	<p>Management should review its IFRS 16 models to ensure they are appropriate.</p> <p>Exhibit 2</p>	<p>Accepted</p> <p>sportscotland shall review and refresh the existing models used to fulfilling the financial reporting of right of use assets (as per IFRS16 requirements) for all existing and new leases. This was a new reporting requirement for Public Bodies first implemented in 2022/23 across public sector, and sportscotland welcomes, with the support of its auditors, the opportunity to adopt best practice identified from across the public sector in this technical area.</p> <p>Responsible officer – Simon Taaffe (Financial Controller)</p> <p>Agreed date – December 2024</p>
<p>2. Provision for dilapidations</p> <p>sportscotland recognised in year a new dilapidations provision for one property with a lease expiry date of May 2027. The accounting treatment and transactions</p>	<p>Management should review the process for considering dilapidations provisions and consider the source data used to form the estimate and disclose key judgements applied.</p> <p>Exhibit 2</p>	<p>Accepted</p> <p>sportscotland shall review the process for managing its dilapidations responsibilities and reporting on provisions within existing and new leases. This shall include the consideration of the suitability and robustness of source information as well as</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>for this is not in accordance with IFRS 16 requirements.</p> <p>Risk – There is a risk material provisions are omitted and estimates may be materially misstated in the absence of regular review.</p>		<p>documenting key assumptions and judgements applied to inform year-end valuations reported.</p> <p>Responsible officer – Simon Taaffe (Financial Controller)</p> <p>Agreed date – February 2025</p>
<p>3. Arrangement to support Governance Statement</p> <p>Certificates of assurance as referenced in the Governance Statement were not available at the start of the audit.</p> <p>The format and process is not in compliance with the SPFM.</p> <p>Risk – There is a risk internal control weaknesses are omitted from the governance statement.</p>	<p>Assurances received which inform the governance statement should be enhanced and adapted to ensure compliance with the SPFM.</p> <p>Paragraph 65</p>	<p>Accepted</p> <p>sportscotland shall review the process and timing for obtaining internal assurance to ensure compliance with SPFM. This shall include adopting the current prescribed format and completing documentation timeously within the year-end cycle. Governance statements shall be drafted to ensure appropriate recognition and evaluation of the relative strengths and weaknesses of control mechanisms that management are aware of through internal audit reports as well as their own oversight and assurance.</p> <p>Responsible officer – Mark Drummond (Head of Finance and Governance)</p> <p>Agreed date – March 2025</p>
<p>4. Departure from SPFM</p> <p>Our audit identified one exit package which did not follow the rules and guidance as set out in the SPFM.</p> <p>Risk – There is a risk that sportscotland agrees exit packages that are not in accordance with guidance</p>	<p>Management should ensure settlement agreements follow the rules and guidance as set out in the Scottish Public Finance Manual (SPFM).</p> <p>Paragraph 72</p>	<p>Accepted</p> <p>Management shall ensure all future settlement agreements adhere to SPFM rules and guidance.</p> <p>Responsible officer – Forbes Dunlop (CEO)</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>issued by Scottish Ministers on the proper handling and reporting of public funds.</p>		
<p>5. Exit package value for money</p> <p>Our audit work identified sportscotland did not retain sufficient evidence to support the exit package had been subject to scrutiny or subject to a value for money assessment.</p> <p>Risk – There is a risk that poor decision-making and record-keeping could result in potentially unnecessary costs being incurred by sportscotland.</p>	<p>Management should ensure there is sufficient evidence to support the decision making and scrutiny over components of exit packages and that they are necessary, justifiable and have been subject to a value for money assessment.</p> <p>Paragraph 77</p>	<p>Accepted</p> <p>Management remain confident that there was extensive and robust scrutiny of the decision-making process that supported all exit packages in 2023/24. This scrutiny incorporated sportscotland Executive together with Chairs of Board and Remuneration Committee. In the context of a complex, sensitive and protracted employee-employer relationship, value for money and good use of public funds was the overriding influencing factor to the decision-making process.</p> <p>Management acknowledge that the documentation of the various scrutiny stages and value for money analysis undertaken within the decision-making process was lacking on this occasion. Management shall review its process around document retention that accompanies all future settlement agreements.</p> <p>Responsible officer – Forbes Dunlop (CEO)</p> <p>Agreed date – December 2024</p>
<p>6. Whole of Government Accounts</p> <p>sportscotland has failed to submit its Whole of Government Accounts return</p>	<p>Management should ensure it has the required processes in place to submit its Whole of Government Return.</p> <p>Paragraph 89</p>	<p>Accepted</p> <p>Management shall review existing process and ensure full and timely compliance in fulfilling its responsibilities for</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>to HM Treasury for the last two years.</p> <p>Risk – There is a risk that sportscotland does not support the preparation of the Whole of Government Accounts.</p>		<p>submissions to Whole of Government Return.</p> <p>Management have already engaged with sponsor team within Scottish Government for clarity on guidance and alignment with existing financial reporting requirements for Scottish NDPBs.</p> <p>Responsible officer: Simon Taaffe (Financial Controller)</p> <p>Agreed date: September 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
<p>b/f 1. Disclosure guidance</p> <p>We identified a number of pensions disclosures in the unaudited annual report and accounts did not meet the requirements of the FReM.</p> <p>Risk – there is a risk that not all disclosures are prepared in accordance with the FReM.</p>	<p>sportscotland should use the National Audit Office’s disclosure guide when preparing its annual report and accounts. This guide is designed to ensure that bodies covered by the FReM have prepared their accounts in the appropriate form and have complied with all disclosure requirements.</p> <p>Agreed Action:</p> <p>Agree with recommendation. Disclosure guide will be used in future years.</p> <p>Responsible officer: Simon Taaffe</p> <p>Agreed date: 1 April 2024</p>	<p>Not implemented</p> <p>No disclosure guide was used in preparation of the annual report and accounts.</p> <p>Revised action: Disclosure checklist will be completed in future years to evidence compliance.</p> <p>Responsible officer: Simon Taaffe</p> <p>Revised date: 1 April 2025</p>
<p>b/f 2. Posting of year end journals</p> <p>From our review of journals posted at the year end, there</p>	<p>sportscotland should ensure there is a clear audit trail when year-end journals are posted to the ledger.</p>	<p>Not implemented</p> <p>Testing of journals identified that this issue still exists.</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>were a number where we could not identify who posted them due to the use of a template function.</p> <p>Risk – there is a risk that management have approved their own journals which could result in management override of controls going undetected.</p>	<p>Agreed Action:</p> <p>Solution found to ensure all uploaded journals in PS Finance system now show audit trail of who posted them.</p> <p>Responsible officer: Simon Taaffe</p> <p>Agreed date: 09 August 2023</p>	<p>Revised action: software provider has been engaged to develop a further improved solution.</p> <p>Responsible officer: Simon Taaffe</p> <p>Revised date: 1 April 2025</p>
<p>b/f 3. IT strategy</p> <p>sportscotland has no formal IT strategy in place.</p> <p>Risk – there is a risk that the IT requirements to support its business plan and achieve the vision are unknown.</p>	<p>There is currently no formal IT strategy in place. The previous document took us up to the end of 2019. COVID, working from home, and the change programme to fully support hybrid working have taken precedence over writing a new strategy. We intend to remedy this over the next year under the guidance of the new Director of Operations.</p> <p>In the meantime, the "Making It Happen" section of the Business Plan ensures IT activities are aligned with the delivery of the Corporate Plan. ICT reports quarterly against two of the three programmes within "Making It Happen". These are "Making the Most of Our Assets" and "Delivering with Integrity".</p> <p>These quarterly updates cover ICT infrastructure, cyber resilience, business continuity, software and web development, and information governance.</p> <p>Updates and progress are recorded within sportscotland's Pentana</p>	<p>Implemented</p> <p>The ICT Strategy was approved by the Senior Management Team in March 2024.</p> <p>We will review the detail as part of our wider IT work as part of the 2024/25 audit.</p>

Issue/risk	Recommendation and Agreed Action	Progress
	<p>system, with reports on the progress being shared with the sportscotland Leadership Group, SMT and the board.</p> <p>Responsible officer: Mark Murphy/Director of Operations</p> <p>Agreed date: 30 June 2024</p>	
<p>b/f 4. Approval of year end journals</p> <p>Currently, there is no evidence of review or approval of journals posted at the year end. The journal is prepared and posted by the same individual.</p> <p>Risk – there is a risk that incorrect journals are posted which affects the financial statements.</p>	<p>Year-end journals should be subject to a review and approval process prior to posting and evidence retained which documents this.</p> <p>Agreed Action:</p> <p>The Period 13 journals have a full audit trail and this will be rolled out to cover all year end journals, including Period 12.</p> <p>Responsible officer: Simon Taaffe</p> <p>Revised date: 09 August 2023</p>	<p>Implemented</p> <p>Testing of year end journals confirmed there was evidence of approval.</p>
<p>b/f 5. Workforce planning</p> <p>Workforce plans should set out the organisation's workforce needs and support the achievement of the organisation's corporate objectives.</p> <p>Risk – there is risk that without effective and up-to-date workforce planning, the organisation does not efficiently manage its staffing needs, or that it will be under-prepared to respond to changing needs or demands</p>	<p>sportscotland should further develop its workforce planning to set out its workforce needs over the next 3 to 5 years.</p> <p>Agreed Action:</p> <p>Progress has started in terms of researching what a workforce plan for sportscotland would look like. This remains a priority and will be picked up by our new Director of Operations when they start in October 2023.</p>	<p>Work in progress</p> <p>We understand sportscotland is currently scoping Workforce Planning and aims to bring in external support to complete this work later this year.</p>

Issue/risk	Recommendation and Agreed Action	Progress
	Responsible officer: Jo Dixon/ Director of Operations Revised date: 30 June 2024	
<p>b/f 6. Performance Report</p> <p>We identified that the performance report contained limited information on progress against objectives, with little trend information reported. Developments are needed to allow the reader to clearly establish whether the performance reported is good or bad and if it is improving or declining.</p> <p>Risk – there is a risk that the reader of the accounts cannot gauge performance in year.</p>	<p>sportscotland should review its performance report and develop reporting to ensure performance against objectives is captured alongside trend information.</p> <p>Agreed action:</p> <p>Work is ongoing to review how to obtain suitable data from specific parts of the sporting sector to ensure that we have suitable data sets to provide meaningful trend data. This was presented on and discussed at the Board in June 2023</p> <p>Responsible officer: Darren McKay</p> <p>Revised date: 31 May 2024t</p>	<p>Implemented</p> <p>A revised performance measurement framework was approved by the Board in April 2024 which includes clearer trend data to measure performance.</p>
<p>b/f 7. Medium-term financial planning</p> <p>sportscotland has responded well despite the significant impact of the pandemic on the sporting system. The path out of the pandemic is becoming clearer but recovery will take time. Following the May 2021 elections, the new Scottish Government’s intentions for sport are known. With increased investment in sport and population health planned sportscotland has a significant role to play in</p>	<p>sportscotland should now look to the future and build a medium-term financial strategy that will help it to support system recovery and the delivery of the new Scottish Government’s aims.</p> <p>Agreed Action:</p> <p>The first draft of the Medium Term Financial Plan document will be submitted to the Audit and Risk Committee in August 2023.</p> <p>Further work will be continued over the next 6-12 months in conjunction with</p>	<p>Implemented</p> <p>Management have worked with the Audit and Risk Committee and the Board to develop its approach to financial planning. Good progress has been made with its Medium-Term Financial Plan and plans are in pace to further refine it.</p> <p>We will continue to report in this area through our wider scope work on financial sustainability.</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>supporting delivery the Government's aims.</p> <p>Risk – there is a risk that the recovery and development of the sporting system in Scotland may not be financially sustainable.</p>	<p>the development of the Workforce Plan and the IT Strategy.</p> <p>Responsible officer: Neville Cobb/ Director of Operations</p> <p>Revised date: 30 June 2024</p>	

sportscotland and sportscotland National Lottery Distribution Fund

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