

Creative Scotland / Creative Scotland National Lottery Distribution Fund

2023/24 Annual Audit Report



Prepared for Creative Scotland and the Auditor General for Scotland
November 2024

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Key messages

2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts for Creative Scotland and its group and the Creative Scotland National Lottery Distribution Fund are unmodified.
- 2 There were no material adjustments made to the annual report and accounts as a result of the audit process.

Financial management

- 3 Creative Scotland operated with a deficit against its grant-in-aid cash allocation, with a net overspend of £142,000 for the year.
- 4 The Creative Scotland National Lottery Distribution Fund produced a £9.9 million deficit on the Fund, reducing its general reserve balance to £11 million as at 31 March 2024.
- 5 Key controls within the main financial systems are operating effectively, while standards for the prevention and detection of fraud remain appropriate.

Financial sustainability

- 6 Creative Scotland has appropriate arrangements in place to continue to deliver services however the organisation continues to operate in a challenging landscape.
- 7 A five-year financial plan has been developed and longer term (10 year) scenario plans were presented to the Board in September 2024.

Vision, leadership, and governance

- 8 Creative Scotland has clear plans in place to implement its vision, strategy and priorities.
- 9 There are effective and appropriate governance arrangements for delivery of its plans.

Use of resources to improve outcomes

- 10 There are effective and appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes.
- 11 Creative Scotland should further develop its approach to demonstrating Best Value.

Introduction

1. This report summarises the findings from the 2023/24 audit of Creative Scotland and its group, and the Creative Scotland National Lottery Distribution Fund. The scope of the audit was set out in an Annual Audit Plan presented to the Audit and Risk Committee in March 2024. This Annual Audit Report comprises:

- significant matters arising from an audit of Creative Scotland and its group, and the Creative Scotland National Lottery Distribution Fund's 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 Creative Scotland 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. Esther Scoburgh has been appointed by the Auditor General for Scotland as the auditor of Creative Scotland and the Creative Scotland National Lottery Distribution Fund for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second year of the five-year audit appointment.

4. We would like to thank Board members, Audit and Risk Committee members, executive directors, 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 audit appointment.

Responsibilities and reporting

5. Creative Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing two separate annual report and accounts in accordance with the Account's Directions from the Scottish Ministers. Creative Scotland is also responsible for establishing appropriate and

effective arrangements for governance, propriety, and regularity for both accounts.

6. The 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 of from its responsibility to address the issues raised 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. We confirm that the audit team comply with the Financial Reporting Council's Ethical Standards and have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity and independence.

Audit fee

10. In September 2024, Audit Scotland applied a rebate to 2023/24 central government audit fees. As a result a reduction of £1,242 was applied to the original total audit fee of £100,380 as set out in the Annual Audit Plan. Therefore the total audit fee for 2023/24 is £99,587 (Creative Scotland £65,748; Creative Scotland National Lottery Distribution Fund £33,839). Both the Creative Scotland and Creative Scotland National Lottery Distribution Fund accounts remain correct with the values disclosed as the audit fee.

Adding value

11. The annual audit adds value to Creative Scotland and the Creative Scotland National Lottery Distribution Fund 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 the principal means of accounting for the stewardship of public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

There were no material adjustments made to the annual report and accounts as a result of the audit process.

Audit opinions on the annual report and accounts are unmodified

12. The Board approved the annual report and accounts for Creative Scotland and its group and the Creative Scotland National Lottery Distribution Fund for the year ended 31 March 2024 on 29 November 2024. 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 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 £1.2 million for Creative Scotland and its group and £861,000 for the Creative Scotland National Lottery Distribution Fund

13. 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.

14. Our 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

Materiality	CS	CS Group	CSNLDF
Overall materiality (2% of gross expenditure)	£1.245 million	£1.248 million	£861,000
Performance materiality (70% of overall materiality)	£872,000	£874,000	£603,000
Reporting threshold (5% of overall materiality)	£62,000	£63,000	£43,000

Source: Audit Scotland

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

16. 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 a low history of misstatements / errors identified in previous years, our understanding of the entity and from our risk assessment procedures.

17. We request that all misstatements are corrected other than those below the reporting threshold. The final decision on making the correction, however, lies with the Board.

Significant findings and key audit matters

18. Under ISA (UK) 260, we communicate significant findings from the audit to the Board, including our view about the qualitative aspects of the Board's accounting practices. The Code of Audit Practice also requires us to highlight key audit matters which are defined in ISA (UK) 701 as those matter judged to be of most significance. There are no significant issues to report from the audit.

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

19. We have obtained audit assurances over the identified significant risks of material misstatement in the Annual Report and Accounts. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements identified in the 2023/24 Annual Audit Plan; further audit procedures performed during the year to obtain assurances and; the conclusions from the work completed.

Exhibit 2

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

Audit Risk: Risk of material misstatement due to fraud caused by management override of controls:

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.

Assurance Procedures:

Assessed the design and implementation of controls over journal entry processing.

Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

Tested journals at the year-end and post-closing entries and focus on significant risk areas.

Considered the need to test journal entries and other adjustments throughout the year.

Evaluated significant transactions outside the normal course of business.

Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.

Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

Substantive tested income and expenditure transactions around the year-end to confirm they were accounted for in the correct financial year.

Focussed testing of accounting accruals and prepayments.

Results and Conclusions

Satisfactory: Our testing did not identify any issues.

No unusual or inappropriate transactions were identified as part of our detailed journal testing.

Grant testing of income and expenditure has not identified any accounting issues.

Apportionment of costs were consistent with the recharge policy.

Testing on accruals and prepayments did not identify any instances of management override of controls.

As part of our substantive testing, we considered whether transactions were within the normal course of business.

No issues were identified in our cut off testing.

There were no identified misstatements

20. The audit identified no misstatements above the reporting threshold.

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

21. The unaudited annual report and accounts were received in line with the agreed audit timetable on 29 August 2024 however both sets of unaudited accounts presented to audit did not appear to have been subject to a review. The unaudited annual report and accounts should be subject to review by relevant officers and senior management prior to submitting to audit and for scrutiny at the Audit and Risk Committee. This will help to ensure a more efficient and focussed audit and allow non-executives to focus on key items.

Recommendation 1

A review process for the unaudited annual report and accounts should be put in place. This should be completed prior to submitting the annual report accounts to audit and for Audit and Risk Committee scrutiny.

22. During the audit we noted a number of items that could have been addressed in preparation for the draft annual report and accounts and prior to the audit commencing. It is recommended that annual requests are sent out early for those items that are required / featured in the in the annual report and accounts, such as senior leadership team and Board member agreement for disclosures in the Remuneration Report.

23. As part of preparing the Annual Governance Statement (AGS) the SPFM states that, *“it is essential that the Internal Control Checklist is completed in full and with due diligence.”* We recommend that this is completed alongside the Certificate of Assurance exercise and submitted to audit alongside the draft annual report and accounts. This ensures the draft AGS is the final version to be audited. It will also help to ensure a more comprehensive draft annual report and accounts is available for the Audit and Risk Committee. Using the Disclosure Checklist as a guide will also help improve this process.

24. Per the SPFM, *“the certificates of assurance process, including the completion and review of the Internal Control Checklists, is subject to review by the external auditors as part of their audit of the accounts.”* We note the Checklist is being presented at November 2024 Audit and Risk Committee.

25. Board members provided comments on the draft annual report and accounts however the version submitted to audit did not contain these adjustments. It is recommended in future that changes are either shared with audit or processed by officers and then a complete, reviewed set of draft accounts is submitted to audit.

Recommendation 2

To help ensure comprehensive and complete draft accounts are prepared and submitted to audit, it is recommended that:

- The Internal Control Checklist is completed alongside the Certificate of Assurance exercise and submitted to audit with the draft annual report and accounts.
 - The Disclosure Checklist is used as a guide / reference point as part of the accounts preparation process.
 - Comments and adjustments processed by finance should be communicated to audit at the earliest opportunity. Comments from Board members and senior staff should be included in the draft versions submitted to audit or tracked for audit to follow up.
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Progress was made on prior year recommendations

26. Creative Scotland has made some progress in implementing the agreed prior year audit recommendations with three out of the six prior year recommendations completed / implemented. For those actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1, follow up of prior year recommendations](#). We will follow these up as part of normal audit procedures in 2024/25.

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

Creative Scotland operated with a deficit against its grant-in-aid cash allocation, with a net overspend of £142,000 for the year.

The Creative Scotland National Lottery Distribution Fund produced a £9.9 million deficit on the Fund, reducing its general reserve balance to £11 million as at 31 March 2024.

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

Creative Scotland operated with a deficit against its grant-in-aid cash allocation, with a overspend of £142,000

27. The main financial objective for Creative Scotland and the Creative Scotland National Lottery Distribution Fund is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

28. Creative Scotland has reported net expenditure of £55.7 million against its overall budget of £55.9 million for 2023/24. The reserve balance at 31 March 2024 is a surplus of £2.7 million. The budget was overspent by £142,000 (0.2% of the overall budget).

29. The Creative Scotland National Lottery Distribution Fund has reported income of £33.1 million and expenditure of £43.0 million. This results in a deficit of £9.9 million for the year. The budgeted deficit was £10.0 million which gives a £0.1 million variance. This was due to slightly increased income, underspend on grants and increases in other operating expenditure.

30. During 2023/24 there was a lack of certainty from the Scottish Government regarding the original budget commitments. A late adjustment announced in October 2023 as part of the Autumn Budget revision saw Creative Scotland's original budget cut by £6.6 million and this impacted its Regular Funding programme.

31. Regular Funding is one of Creative Scotland’s main funds for arts and creative organisations in Scotland, offering stable long-term funding support to 120 organisations.

32. In order to bridge the in-year funding gap and ensure that organisations were able to continue to operate based on original allocations, the Creative Scotland Board made an emergency allocation of National Lottery reserves to maintain the financial stability of these 120 organisations. We reviewed this and found no issues from an accounting and governance perspective.

Budget processes were appropriate

33. Creative Scotland’s total 2023/24 budget (cash and non-cash) was £55.9 million. The summary of budget and subsequent adjustments is noted in [Exhibit 3](#). Quarterly budget updates and management accounts are presented to the Finance and General Purposes Committee (F&GP). These contain projected grant-in-aid funding, current position and forecast to year end for both Creative Scotland and the Lottery Fund. Significant variances are noted and explanations provided. The papers also contain sections highlighting ‘pressures and uncertainty’.

34. Overall there are adequate budget processes and reporting arrangements to the appropriate committee in place.

Exhibit 3

Creative Scotland Budget 2023/24

	Original Budget	Autumn revision	Spring / Additional Funding	Final Budget
	£000	£000	£000	£000
Resource	32,682	19,250	3,750	55,682
Capital	0	0	50	0
Total	32,682	19,250	3,800	55,732
Non-Cash	150	0	0	150
Total budget	32,832	19,250	3,800	55,882

Source: Budget allocation and monitoring 2023-24 (SG final letter, March 2024)

35. The F&GP Committee is the key committee that reviews budgets and outturns for both organisations. One of the non-executive members of the F&GP Committee is also the Chair of the Audit and Risk Committee and we

note this is good continuity and link between the various Committees and Board.

There are appropriate financial control arrangements in place

36. From a review of the design and implementation of key controls within Creative Scotland's systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any internal control weaknesses which could affect Creative Scotland's ability to record, process, summarise and report financial and other relevant data and result in a material misstatement in the financial statements.

Internal audit

37. Creative Scotland's internal audit function is provided by Azets. The 2023/24 programme of internal audit work has been completed and Azets presented their Annual Audit Report at the June 2024 Audit and Risk Committee. The report concluded that, "*Creative Scotland has a framework of governance, risk management and internal control that provides reasonable assurance regarding the effective and efficient achievement of objectives, with exception to financial planning arrangements. We identified a number of significant control weaknesses within our review of Financial Planning, relating to the lack of robust controls within the current high risk environment, all of which remained outstanding at the end of the year.*"

38. Financial planning is discussed under financial sustainability in section 3 of this report.

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

39. 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.

40. Creative Scotland has adequate arrangements in place to prevent and detect fraud or other irregularities.

National Fraud Initiative

41. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The NFI data matching involves comparing sets of data about individuals, such as payroll, against other records held by the same or another body. Data matching allows potentially fraudulent claims and payments to be identified.

42. Since 2006/07 the NFI has led to the detection of fraud, overpayments and error totalling around £180 million in Scotland. Across the UK, since 1996, all

such exercises undertaken by the Cabinet Office (and its predecessor, the Audit Commission) have led to the detection of fraud, overpayments and error approaching £3 billion. The 2022/23 exercise concluded during 2023/24 financial year and the final national report, [The National Fraud Initiative in Scotland 2024](#) was published in August 2024.

43. Creative Scotland participates in the NFI exercise and has submitted data for the new NFI round. For the 2022/23 exercise, only payroll data was submitted by Creative Scotland instead of the full payroll and creditors data sets. For future exercises, the Executive Director of Operations confirmed that the full data sets will be submitted to ensure full compliance with NFI and get the most out of the data matching exercise. Two payroll matches were identified as part of the 2022/23 exercise and neither were fraudulent in nature.

44. Overall Creative Scotland had adequate arrangements in to investigate any potential frauds.

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

Creative Scotland has appropriate arrangements in place to continue to deliver services however the organisation continues to operate in a challenging landscape.

A five-year financial plan has been developed and longer term (10 year) scenario plans were presented to the Board in September 2024.

45. [Exhibit 4](#) sets out the wider scope risks relating to financial sustainability identified in our 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Audit work has addressed the wider scope risks identified in the Annual Audit Plan

Exhibit 4

Risks identified from our responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>Financial Sustainability</p> <p>Public bodies continue to operate in an increasingly complex and challenging environment where funding is reducing and there is less certainty about budgets across the short, medium and long term.</p> <p>Creative Scotland are facing risks and challenges to its financial sustainability in relation to the level of funding they are receiving and its</p>	<p>Reviewed and assessed the annual budget setting process.</p> <p>Reviewed medium to long term financial planning documents.</p>	<p>Annual budget setting is in line with expectations with the draft budget presented to the F&GP Committee before being presented and approved at the Board meeting.</p> <p>Reviewed progress against the preparation of the medium to longer term financial / scenario planning from papers submitted to the F&GP Committee and Board.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>ability to meet the demands of the groups that they support.</p> <p>There remains uncertainty around the timing of government funding streams.</p>		<p>Reviewed the results of the internal audit on Financial Planning completed in 2023/24 and progress towards implementing the key recommendations.</p> <p>Conclusion: The budget setting for 2024/25 includes projections for the next five years using the best information possible and projections for future funding.</p> <p>Longer term scenario plans have been subject to review and were updated after scrutiny and comments from members. The updated scenario plans which include assumptions, were presented to and approved by the Board in September 2024.</p> <p>This is an area that irrespective of the actions taken will remain a risk for all public sector bodies in the medium to longer term. We review and report on this area annually as part of our responsibilities under the Code of Audit Practice.</p>

Source: Audit Scotland

Creative Scotland has prepared a medium-term financial plan

46. A medium term financial plan to 2027/28 was presented to the F&GP Committee in February 2024 and approved by the Board in March 2024. The plans were based on 2023/24 estimated outturn, 2024/25 draft budget, and projections for the remaining three years to 2027/28. Budget assumptions were laid out in the covering paper illustrating the Scottish Government (SG) funding, National Lottery funding, operating and non-operating costs.

47. Medium to longer term planning is important not only to Creative Scotland but also to the organisations that are funded via the grants it distributes, in particular the multi-year fund. The impact over the lack of clarity about funding levels could mean some of the organisations funded by Creative Scotland could

be declared a going concern. This also has potential longer term impact on the culture sector and carries an element of reputational risk to Creative Scotland. Late funding changes and decisions by the (SG) has also further impacted Creative Scotland's ability to plan with confidence for the medium and especially longer term.

48. However, in October 2023 the First Minister announced an extra £100 million for the culture sector over the next 5 years to 2028/29. As a result and along side the launch of the multi-year fund, officers prepared scenario plans for the next ten years. In February 2024, three (draft) ten-year indicative scenarios were presented to the F&GP Committee. These were high level plans. It was recognised that the plans needed to be updated to include more financial assumptions; numerical scenarios based on income assumptions; inflation; and other operational factors. Once updated for these items, Creative Scotland should be better placed to respond to the ever changing funding landscape and be able to effectively model changes to its grant-in-aid and lottery funding income streams.

49. The Financial Planning Framework for Creative Scotland was approved in July 2024. Updated scenario plans were presented to and approved by the Board in September 2024. The plans will be dynamic and updated as and when new information is known. There will also be a further update after the Scottish budget is announced in December 2024.

50. Financial Planning was also the subject of an internal audit review during 2023/24. The review looked at the processes in place across Creative Scotland for short, medium and long term financial planning. We will continue to review the progress of implementing the actions raised by internal audit over the course of our audit appointment.

51. We first recommended the need to prepare longer-term financial plans in our 2020/21 Annual Audit Report. Given the internal audit report's key recommendations and monitoring of their implementation alongside the updated scenario plans completed in September 2024, we have marked this action as a 'completed' in this report.

52. We review and report on financial sustainability as part of our annual audit work, any new issues or recommendations will be highlighted in our future plans and reports.

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

Creative Scotland has clear plans in place to implement its vision, strategy and priorities.

There are effective and appropriate governance arrangements for delivery of its plans.

Creative Scotland has a clear vision and strategy

53. Creative Scotland has a Strategic Framework which sets out their objectives, priorities and how they plan to achieve these. As a grant distributing body, Creative Scotland bases funding activity on six criteria, which are aligned with the outcomes they want to be achieved as a result of the funding.

54. The Strategic Framework is supported by Annual Plans which outline the key development activity to be carried out in year relating to the strategic priorities. The Annual Plans also establish Key Performance Indicators (KPIs) for performance to be measured against, as reported in their Annual Review.

Governance arrangements are effective and appropriate

55. Creative Scotland's governance arrangements have been set out in the governance statement in both sets of annual report and accounts. We have reviewed these arrangements and concluded that they are effective and appropriate.

56. Board and committee minutes including details of decisions made are available on the website but could be updated in a more timely manner. Supporting papers are not included in the items published on the website.

57. We have observed that scrutiny arrangements are working well in Creative Scotland, this is informed by our attendance at the Audit and Risk Committee. All the non-executives get a chance to participate and do participate in discussions including scrutiny of the unaudited annual accounts.

Climate change arrangements

58. 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.

59. Creative Scotland published their Climate Emergency and Sustainability Plan in April 2022. The plan set out the actions Creative Scotland will take to achieve their target of becoming net zero by 2030 and support the wider culture and creative sectors in Scotland to be net zero by 2045.

60. Creative Scotland's Environmental Sustainability Review 2023/24 was published in April 2024. It included the first annual review of progress against the plan, showing the status of each action.

61. Going forward, the Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. Any future audit work in this area will be communicated with officers.

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. This is done by effective planning and working with strategic partners and communities.

Conclusions

There are effective and appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes.

Creative Scotland should further develop its approach to demonstrating Best Value.

Creative Scotland should further develop its approach to demonstrating Best Value

62. [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.

63. Elements of Best Value are mentioned within the Framework Document between Scottish Government and Creative Scotland. Whilst Creative Scotland mention the Best Value themes throughout its various publications there is no direct mention of Best Value and how they go about achieving this nor is it signposted in any documents.

64. There have been no reports on Best Value presented to any committee or the Board to demonstrate how the organisation is meeting these requirements. Creative Scotland should have a formally agreed document subject to regular review that details the arrangements in place to support and demonstrate the Best Value characteristics, ideally using the self-assessment process as noted in the SPFM.

65. Per the SPFM, *"a Best Value organisation will be able to demonstrate through its assurances and self-assessment processes how the Best Value attributes and practices are embedded in the way they work."*

66. Creative Scotland do not currently undertake a self-assessment of how they achieve Best Value, this is something that we would recommend they undertake and report to the relevant committee.”

Recommendation 3

Creative Scotland should:

- Integrate and signpost Best Value within their strategic documents and publications to demonstrate how they will achieve their priorities alongside achieving Best Value.
 - Develop a process to report how they meet the Best Value characteristics including self-assessment as set out in the SPFM.
 - Report of progress against the Best Value characteristics / self-assessment to members.
-

Performance Management

67. Creative Scotland has a suite of Key Performance Indicators (KPIs) to monitor performance during the financial year. The 2022/23 Annual Review of Performance summarised performance against 26 KPIs. It reported that 8 KPIs had achieved a RAG status of green; 14 amber and; 4 red.

68. In 2023/24 the KPIs were reviewed and reduced from 26 to 12. The 12 new KPIs were reflected in the 2023/24 Annual Plan and will be reported against in the 2023/24 Annual Review of Performance. The updated 2023/24 report was not available for us to review and comment on in time for this report. The 2023/24 data will be the new baseline, but historical data will be included where applicable for comparison purposes.

69. As part of our 2024/25 annual audit we will review and comment on the progress against the streamlined KPIs as well as the update reports provided to Committee and Board.

Review of Creative Scotland

70. In September 2024 the First Minister announced that Creative Scotland will face a review to ensure it is meeting the needs of the cultural sector. This will be the first review of since Creative Scotland was established in 2010. The [Scottish Government’s Programme for Government 2024/25: Serving Scotland](#) has made a number of commitments including but not limited to:

- Reviewing the way the culture sector is supported, including a review of Creative Scotland. This will also help to ensure the distribution of additional funding in the most effective way possible.

- Inviting Scotland's culture sector to join a partnership on Scottish festivals to focus on how best to support Scotland's festivals and uphold their vital role within the sector.
- Maintaining the (SG) commitment to increase funding for culture and the arts so that it is at least £100 million more a year by 2028/29.
- Supporting Screen Scotland to deliver on its strategy to 2030, ensuring the screen sector can reach the SG goal of £1 billion gross value added to the Scottish economy by the end of 2030.

71. We will monitor any national reviews or equivalent as part of our normal audit work over the course of the audit appointment.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue	Year raised	Recommendation	Agreed management action / timing
<p>1. Review of Accounts prior to submitted for audit</p> <p>The unaudited annual report and accounts submitted for review to audit and for scrutiny at the Audit and Risk Committee were not subject to a review by relevant officers and senior management.</p> <p>Reviewing the accounts in advance will help ensure a more efficient and focussed audit process. It will also allow more focussed scrutiny of key items by Audit and Risk Committee members.</p>	2023/24	<p>A review process for the unaudited annual report and accounts should be put in place. This should be completed prior to submitting the annual report and accounts to audit and for the Audit and Risk Committee scrutiny (refer paragraph 21).</p>	<p>Accepted</p> <p>The review of the 145 pages of draft annual report and accounts by the Audit and Risk Committee resulted in 7 wording changes with no amendments to the financials. Additional review will take place prior to the submission of the draft annual report and accounts which will take place following review by the Audit and Risk Committee.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: end August 2025</p>
<p>2. Draft Annual Report and Accounts preparations</p> <p>A number of items could be addressed earlier in the year and in preparation for the draft annual report and accounts.</p>	2023/24	<p>To help ensure comprehensive and complete draft accounts are prepared and submitted to audit, it is recommended that:</p> <ul style="list-style-type: none"> The Internal Control Checklist is completed alongside the Certificate of Assurance 	<p>Accepted</p> <p>The internal controls checklist will be completed at the same time as the Certificate of Assurance process.</p>

Issue	Year raised	Recommendation	Agreed management action / timing
<p>These items should ideally be completed prior to the audit commencing.</p> <p>There remains a risk that key information is not considered in a timely fashion to enable effective scrutiny, challenge and rectification or audit.</p>		<p>exercise and submitted to audit with the draft annual report and accounts.</p> <ul style="list-style-type: none"> • The Disclosure Checklist is used as a guide / reference point as part of the accounts preparation process. • Comments and adjustments processed by finance should be communicated to audit at the earliest opportunity. Comments from Board members and senior staff should be included in the draft versions submitted to audit or tracked for audit to follow up. Refer paragraphs 22-25 	<p>The requirement to complete the Disclosure Checklist was not communicated by Audit Scotland but will be completed for future audits.</p> <p>No adjustments were made to the numbers in the annual report and accounts in the drafting process and wording changes were communicated promptly but will be provided even more speedily in future audits.</p> <p>Responsible officer: Director of Finance / Head of Finance</p> <p>Agreed date: end August 2025</p>
<p>3. Best Value</p> <p>The 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.</p> <p>Elements of Best Value are mentioned within the Framework Document between Scottish Government and Creative Scotland however more could be done to</p>	2023/24	<p>As part of compliance with the duty of Best Value, Creative Scotland should develop a process to report how they meet the Best Value characteristics as set out in the SPFM including completing a Best Value self-assessment.</p> <p>Creative Scotland should integrate and signpost within their strategic documents and publications to demonstrate how they will achieve their priorities alongside achieving Best Value.</p> <p>Report progress against the Best Value characteristics / Self-Assessment to members (refer paragraphs 62-66).</p>	<p>Accepted</p> <p>The characteristics of Best Value (Vision and Leadership, Governance and Accountability, Use of Resources, Partnership and Collaborative Working, Working with Communities and Sustainability) are all addressed via published strategic documents although Best Value is not directly signposted. This will be incorporated into the Annual Review document for 2023/24.</p> <p>Responsible officer: Director of Communications / Marketing Manager</p> <p>Agreed date: end February 2025</p>

Issue	Year raised	Recommendation	Agreed management action / timing
demonstrate compliance and thus demonstrating continuous improvement.			

Follow-up of prior years' recommendations

Issue	Year raised	Original recommendation and agreed action(s)	Progress
<p>PY1. Joint Report by Chair and Chief Executive</p> <p>The Joint Report by the Chair and Chief Executive which forms part of the performance report was not completed and submitted to audit for review until 1 November 2023.</p> <p>The document forms part of the performance report and should be completed and submitted as part of the unaudited accounts package.</p>	2022/23	<p>Recommendation: The Joint Report which comments on 'looking back' should be completed and submitted at the same time as the unaudited accounts (refer paragraph 22 of 2022/23 Annual Audit Report).</p> <p>Agreed action: Agreed, the Joint Report will be provided at the same time as the unaudited 2023/24 accounts.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: September 2024</p>	<p>Completed</p> <p>The 2023/24 draft annual report and accounts submitted to audit in August 2024 contained the Joint Report with only a few minor items outstanding.</p>
<p>PY2. Performance report</p> <p>The performance report meets the minimum statutory requirements of the FReM however it could be improved to tell a better story. In particular, the report lacked information on performance against key objectives and key performance indicators.</p>	2022/23	<p>Recommendation: Creative Scotland should improve the structure and content of the performance report which is included in the annual report and accounts so that it accurately reflects the year looking back.</p> <p>Agreed action: The performance report was enhanced in 2022/23 with additional information being provided, and further</p>	<p>Work in progress</p> <p>Revised action: Our initial review of the draft accounts submitted for audit included similar comments to those raised last year with few changes noted. These suggestions have been communicated to officers. There</p>

Issue	Year raised	Original recommendation and agreed action(s)	Progress
		<p>improvements will be investigated for 2023/24.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: September 2024</p>	<p>remains scope for further transparency and general improvements overall.</p> <p>Responsible officer: Director of Finance</p> <p>Revised date: 31 March 2025</p>
<p>PY3. Annual assurance certificates and reports</p> <p>The annual assurance statements provided by the committees and Senior Leadership Team within Creative Scotland will not be received and approved by the Board until November 2023. This is late in the annual process and any issues that may be flagged in these assurance certificates/reports could have an impact on the annual governance statement and the accounts.</p> <p>There is also a risk that key information is not considered in a timely fashion to enable effective scrutiny, challenge and rectification.</p>	2022/23	<p>Recommendation: Creative Scotland should ensure that the various assurances and certificates are received at the same time or as close to when the unaudited financial statements are approved and submitted to audit.</p> <p>Agreed action: Agreed. Certificates of assurance will be provided with the 2023/24 unaudited accounts.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: September 2024</p>	<p>Partially completed (now superseded by point 2 above)</p> <p>Certificates of assurance were submitted alongside the draft annual report and accounts at the start of the audit however the internal control checklist which accompanies the certificates was not available at the same time.</p> <p>We have raised this as a 2023/24 recommendation (refer point 2, Draft Annual Report and Accounts preparations recommendation above).</p>
<p>PY4. Depreciation Annual Charge for CCA Building</p> <p>Creative Scotland changes the useful life of its building back to 35 years (original useful life) every time the asset is revalued</p>	2021/22	<p>Recommendation: Creative Scotland should discuss and agree the appropriate useful life for the building with the valuer. This will allow depreciation to be charged appropriately over the useful life of the asset.</p>	<p>Outstanding (due 31 March 2025)</p> <p>The original agreed action and timing have yet to occur. Officers have not provided a further update to audit. This will be followed up during the 2024/25 audit.</p>

Issue	Year raised	Original recommendation and agreed action(s)	Progress
<p>by external valuers. This means that the building will never be fully depreciated.</p> <p>Risk: The depreciation charged may be incorrect as the useful life of the asset is not appropriate.</p>		<p>Agreed action: Outstanding. Action not due at this time.</p> <p>Responsible officer: Finance Manager</p> <p>Agreed date: 31 March 2025</p>	
<p>PY5. ICT Strategy</p> <p>Creative Scotland does not have a formalised ICT Strategy document.</p> <p>Risk: An ICT Strategy is a document which outlines how your organisation's ICT will support your overall corporate objectives and strategy over a defined period. Not having one in place might result in a lack of focus in relation to ICT.</p>	2021/22	<p>Recommendation: Creative Scotland should create a formalised ICT Strategy document.</p> <p>Agreed action: Outstanding with new revised action date.</p> <p>The new Digital Strategy will be completed in Q4 of FY2023/24. The strategy will be informed by the outcomes of an internal audit on Cyber Security and an Advisory Audit Report on Digital Strategy being prepared by our internal auditors in Q4.</p> <p>Responsible officer: Head of Digital</p> <p>Agreed date: 31 March 2024</p>	<p>Completed</p> <p>The new Digital Strategy 2024-27 remained in development during 2023/24 however the finalised version was presented to the Finance and General Purpose Committee and formally approved by the Board in July 2024.</p> <p>We regard this action as completed and note the ongoing work of internal audit in this area including their monitoring of progress against the various actions raised.</p>
<p>PY6. Financial Planning</p> <p>Creative Scotland do not prepare longer-term financial plans. Creative Scotland may benefit from developing and implementing a longer-term financial plan.</p> <p>Risk: In the absence of longer-term financial plans Creative Scotland may not</p>	2020/21	<p>Recommendation: Creative Scotland should consider developing and implementing longer-term financial plans.</p> <p>Agreed action: In Progress. Five- year financial projections were provided to the March 2023 Board for context to set the 2023/24 budget.</p>	<p>Completed</p> <p>A five-year financial plan has been developed and longer term (10 year) scenario plans were presented to and approved by the Board in September 2024 with further commentary provided in section 3 above.</p>

Issue	Year raised	Original recommendation and agreed action(s)	Progress
be able to direct and control its finances efficiently.		<p>Creative Scotland have agreed an internal audit on Financial Planning to be carried out in November 2023. This will specifically consider what scenario planning and longer-term financial planning measures might be possible in the context of our extremely short-term budget horizon.</p> <p>Critically, any additional forward planning we might put in place as a result of this must add value – the nature of the budget cycle at present, whereby budgets are uncertain even within the current financial year does not lend itself to meaningful long-term planning. Considering the very constrained resources that CS has for financial matters, we will need to carefully consider the opportunity costs of the different levels of resourcing that might be allocated to various long term planning options.</p> <p>Responsible officer: Director of Finance Revised date: 31 March 2024</p>	We review and report on financial sustainability as part of our annual audit work, any new issues or recommendations will be highlighted in our future plans and reports. We regard this action as completed.

Source: Creative Scotland / Creative Scotland National Lottery Distribution Fund Annual Audit Reports: [2020/21](#); [2021/22](#); [2022/23](#)

Creative Scotland / Creative Scotland National Lottery Distribution Fund

2023/24 Annual Audit Report

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