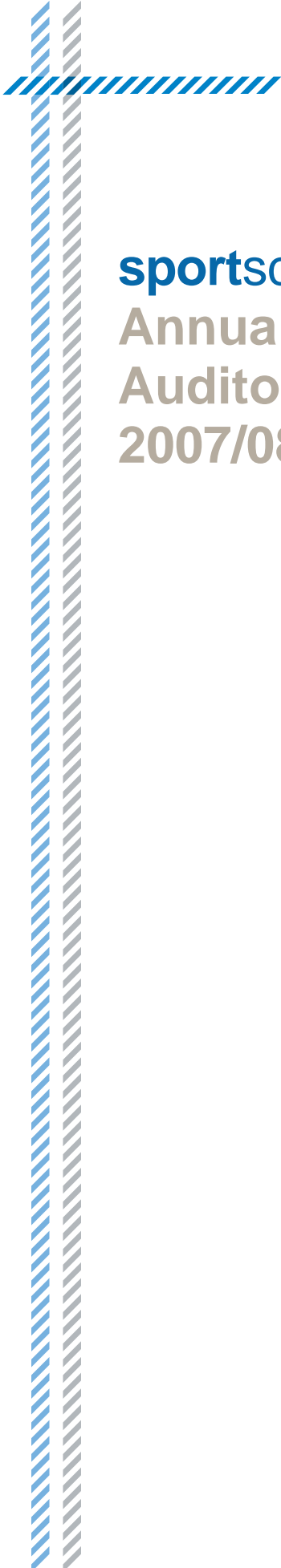




**SCOTT-MONCRIEFF**

EDINBURGH AND GLASGOW



**sportscotland group**

**Annual Report to the Board and the  
Auditor General for Scotland  
2007/08**



SCOTT-MONCRIEFF

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## sportscotland group

# Annual Report to the Board and the Auditor General for Scotland 2007/08

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# 1 Executive Summary

## Governance

- On 9 January 2008, the Minister for Communities and Sport announced in the Scottish Parliament that sportscotland would merge with the Scottish Institute of Sport by 31 March 2008 and the headquarters function of sportscotland would relocate to Glasgow by April 2009.
- The merger with the Scottish Institute of Sport was legally completed by the deadline set by the Scottish Ministers. Further work will, however, be required to fully integrate the operational aspects of the former Institute into sportscotland.
- On 16 February 2008, Julia Bracewell OBE stood down as the Chair of sportscotland. Following a Scottish Government recruitment process, Louise Martin CBE was formally announced as the new Chair of sportscotland from 2 June 2008.

## Performance

- The Corporate Plan 2007-11 has been reviewed during the year to take account of reduced Lottery Funding as monies continue to be diverted to the London 2012 Olympics and Paralympics and also the revised grant-in-aid settlement from the Scottish Government. Priorities and outcomes remain largely the same, but there are concerns that there may be funding shortfalls in the National Regional Sports Facilities Strategy.
- The National Sports Centres require to review and upgrade appropriate costing and pricing mechanisms to ensure the future financial viability of the Scottish Sports Council Trust Company is not put in to jeopardy. Regular monitoring information should also be produced and reviewed regarding household and activity courses' income and expenditure. The governance structure of the Trust Company also requires to be considered to ensure the preservation of the company's charitable status.
- Work has begun on plans to enable a lasting legacy to be delivered to Scotland from the 2014 Commonwealth Games. The sporting legacy to be obtained will focus not only on high performance results at the Games but also an overall increase in sports participation.

## Finance

- Our audit opinions on the truth and fairness of the financial statements and the regularity of transactions are unqualified for both the sportscotland group and the sportscotland Lottery Fund. The financial statements comply with the Government Financial Reporting Manual in all material aspects.
- The sportscotland group financial statements include the results of a revaluation of Caledonia House, which was revalued downwards by £1.8m, and Glenmore Lodge, which has been impaired by approximately £0.5m.
- A total provision of £3.59m has been recognised within the financial statements of sportscotland and the sportscotland Lottery Fund representing the best estimate of redundancy and retirement costs arising from the relocation to Glasgow.

**Conclusion**

This report concludes the 2007/08 audit of the sportscotland group and the sportscotland lottery fund. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Chief Executive and Director of Finance and Support Services of sportscotland and has been prepared for the sole use of the sportscotland Board and the Auditor General for Scotland and Audit Scotland. We would like to thank all members of sportscotland's management and staff who have been involved in our work for their co-operation and assistance during our audit visits during a challenging year.

**Scott-Moncrieff**  
**June 2008**

# 2 Introduction

## 2.1 Auditor General and Audit Scotland

The Auditor General for Scotland is responsible for reporting to the Scottish Parliament on how public bodies spend public money, manage their finances and achieve value for money in the use of public funds. In discharging this responsibility the Auditor General appoints central government auditors and sets the terms of their appointment.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions, including preparing a Code of Audit Practice setting out the role and responsibilities of the external auditor.

## 2.2 Audit Appointments

The Auditor General for Scotland has appointed Scott-Moncrieff as external auditor of the Scottish Sports Council (trading as sportscotland) for the 5 year period 2006/07 to 2010/11.

Under the National Lottery etc Act 1993 (as amended), sportscotland has been appointed to distribute National Lottery funds for the purposes of supporting sport in Scotland. Scottish Ministers guidance requires the Scottish Sports Council to prepare separate statements of accounts relating to these activities.

Sportscotland is the sole guarantor of the Scottish Sports Council Trust Company, a charitable trust company which administers activities at three national centres. During the 2007/08 financial yeas sportscotland was also the sole guarantor of the Scottish Institute of Sport, a limited company which received lottery funding and provided performance support services to elite athletes. sportscotland is required to consolidate the results and financial position of both the Trust Company and the Institute to prepare one set of group financial statements. Our audit covers the group as a whole.

We have been appointed independently as auditors to the Scottish Sports Council Trust Company Limited and The Scottish Institute of Sport.

This annual report summarises our 2007/08 audit of the sportscotland group and the sportscotland National Lottery fund and highlights the key issues arising from our work.

## **2.3 Independence and ethical standards**

Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

- There are and have been no relationships between Scott-Moncrieff and the Board, its directors and senior management that may reasonably be thought to bear on our objectivity and independence.
- Scott-Moncrieff has not provided any consultancy or non-audit services to the Board.

## **2.4 Key risks**

Our audits are risk based. This means that we focus our resources in the areas of highest priority or risk to the Board. The key risk areas identified for the 2007/08 audit were summarised in our external audit plan presented to the Audit Committee prior to the commencement of the audit. These risk areas were:

- Future of the sportscotland group due to re-organisation following the Ministerial statement.
- The potential loss of charitable status for the Scottish Sports Council Trust Company.
- The ceasing of End of Year Flexibility arrangements and loss of the Central Unallocated Provision.
- The continued decrease in income to the sportscotland Lottery Fund.

This report incorporates our findings in relation to these key risks.

## **2.5 Scope of the audit**

Our audit work can be classified under the following three headings: governance, performance and finance. The main audit objective for each of these areas is summarised below.

### 2.5.1 Audit areas and audit objectives

Audit area	Audit objective
Governance	To review the Board's governance arrangements in relation to: <ul style="list-style-type: none"><li>• The Board's review of its systems of internal control.</li><li>• The prevention and detection of fraud and irregularity.</li><li>• Standards of conduct and prevention and detection of corruption.</li><li>• The Board's financial position.</li></ul>
Performance	To review the Board's arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources.
Finance	To provide an opinion on the truth and fairness of the Board's financial statements and on the regularity of transactions.  To review the Board's financial standing, and financial management arrangements.

The remainder of this report sets out the results of our work in 2007/08 under the headings of Governance, Performance and Finance. The action plan in section 6 details the recommendations we have made during the year, which also incorporates the action plan resulting from the audit of the Scottish Institute of Sport.

# 3 Governance

## 3.1 Building the new sportscotland

The future of sportscotland was decided in January 2008 with a statement by Stewart Maxwell MSP, Minister for Communities and Sport. The key elements of the statement have been noted below.

*“The Government has decided that sportscotland should merge with the Scottish Institute of Sport into a single body under a single board.”*

*“The new organisation’s headquarters will be located in Glasgow..... Basing sportscotland in Glasgow will emphasise the opportunities that the 2014 games will bring and the important role that sportscotland will need to play in ensuring that there is a legacy from those games for the people of Scotland”*

An Implementation Group has been set up to manage the changes that will need to be made to ensure that the required outcomes of the Ministerial announcement are met. In 2007/08 group consisted of the sportscotland Chief Executive, Director of Finance and Support Services, Head of HR, Relocation Project Manager and Chief Executive and Business Manager from the Scottish Institute of Sport with two representatives from the Sports Division of the Scottish Government.

Sportscotland have created a high level plan to address the Scottish Institute of Sport merger, relocation and HQ interim relocation. Progress against these items is updated on a weekly basis following a meeting of the Organisational Change Group. Progress is also monitored by the Implementation Group regularly. The Board also receives progress reports as a standing item on the Board meeting agenda.

## 3.2 Relocation

Work on relocation had been ongoing for some time as the previous Labour Administration had indicated that they were intending to relocate sportscotland. Following the Ministerial announcement, a great deal of work has been undertaken on finding new office accommodation and establishing appropriate arrangements and entitlements for staff relocation. This work is ongoing and has been required to ensure that sportscotland is relocated by April 2009 as requested by Scottish Ministers.

### 3.2.1 Office Accommodation

Sportscotland will be located within the National Indoor Sports Arena (NISA) complex in Glasgow, which is currently being built for the 2014 Commonwealth Games. However, as this property is not likely to be completed until 2011, sportscotland will need to find



accommodation for the interim period. Work has been undertaken reviewing both commercial and Scottish Government lease options and after an initial evaluation, three potential properties have been found in Glasgow City Centre for the two year period. These options will now be further considered before a final decision is taken and the interim relocation takes place in early 2009. The costs of the interim lease have been factored into the current estimate of total relocation costs.

### **3.2.2 Relocation of Staff**

The sportscotland Human Resources department have continued work on the relocation of sportscotland staff during 2007/08. All policies on redundancy and retirement have been updated to take account of recent age discrimination legislation and other legislative requirements. Following the Ministerial announcement a package of 'reserved rights' have been developed which staff have the option to accept or reject in the period until the interim move to Glasgow takes place. These packages have been reviewed and accepted by the Scottish Government, discussed with the Trade Unions and at the start of June were unveiled to staff. At the time of writing it is unclear what proportion of staff, and which staff in different areas will and will not relocate. This uncertainty is likely to continue until late 2008. A provision has been recognised in the 2007/08 accounts representing an estimate of the likely redundancy and retirement costs. Section 5.4 of this report contains further details on this provision.

### **3.3 Merger with the Scottish Institute of Sport**

Following the ministerial announcement in January 2008, there was a prompt response by both sportscotland and the Scottish Institute of Sport to ensure that the merger took place by 31 March 2008. Consultations have taken place with all staff to outline the legal and practical aspects of the merger as well as consultation with employee representatives and Unions. All staff contracts were transferred to sportscotland under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) process by 31 March 2008.

While the legal aspects of the merger have been completed within the deadline, there is still considerable work required to bring all operational activities into line with the normal working practices at sportscotland. This merger of the operational activities is expected to take effect during 2008/09 and we will continue to monitor the progress being made by sportscotland.

### **3.4 Board Membership**

The Ministerial announcement to merge the boards of the Scottish Institute of Sport and sportscotland resulted in the Scottish Minister asking the Chairs of both sportscotland and the Scottish Institute of Sport to stand down. At a special meeting of the sportscotland Board on 6 February 2008, the former Chair agreed that she would step down as at 16 February. The Board required an interim Chair to be appointed until a new full-time Chair was appointed by

the Scottish Ministers. Board members present at the special meeting formed a consensus that Ian Beattie should become the Vice Chair of the Board, which would then allow him to assume the position of interim Chair following the departure of Julia Bracewell.

Ian Beattie was at that point, the Chair of the Audit Committee and under the Combined Code the Chair of the Board should not also Chair the Audit Committee. Therefore, a new Chair had to be appointed to the Audit Committee. Stephen Wright who was already a member of the Audit Committee was appointed as the new Chair.

#### **3.4.1 Co-optees to the Board**

In light of the merger of sportscotland and the Scottish Institute of Sport, the Minister for Communities and Sport authorised the sportscotland Board to co-opt up to three additional members from the Institute Board. Given the exceptional circumstances of the merger sportscotland recognised the advantages of such a move, and three members of the Institute Board were co-opted onto the sportscotland Board on 27 February 2008. The three co-opted members bring an additional expertise in relation to high performance sport to the Board.

#### **3.4.2 Appointment of Chair**

Louise Martin CBE, who was a member of the Board of the Scottish Institute of Sport until it was dissolved in March 2008, was co-opted onto the sportscotland Board and has been appointed as the new Chair of sportscotland from 2 June 2008.

### **3.5 Remuneration Committee**

The Combined Code on Corporate Governance as updated in 2006 sets out guidelines for listed companies on the governance arrangements that they should strive to attain. Public sector bodies are also expected to emulate the arrangements that are set out in the Combined Code. The Combined Code recommends that organisations should form remuneration committees and that these should comprise of not less than three members who should all be independent non-executive directors. During the year, sportscotland had a remuneration committee in place, with three members, as outlined in the Code.

#### **3.5.1 Chief Executive Remuneration**

The remuneration committee of sportscotland met once during the year to discuss the performance of the Chief Executive against his set objectives, and from this to determine a pay increase for the year. The remuneration committee agreed a salary increase, along with a non-consolidated bonus. Sportscotland is required to obtain Scottish Government approval for the pay increase. We identified that no further action has been taken with regards to obtaining this approval. We recognise that 2007/08 was a challenging year for sportscotland, and appreciate the circumstances that have led to this point being raised. We do however

recommend that action is taken as soon as possible regarding the 2007 pay increase and that this is done so on a timely basis in future years.

### **3.6 Scottish Institute of Sport**

On 1 April 2008 the Scottish Institute of Sport transferred its trade, assets and liabilities to sportscotland at their book value and subsequently ceased to trade. As required by Financial Reporting Standard 18 - *Accounting Policies*, the financial statements have been prepared on the basis that the company is no longer a going concern.

### **3.7 Statement on Internal Control**

The framework of internal controls operating at the sportscotland group is reported within the Statement on Systems of Internal Control (SIC) included with the annual accounts. The sportscotland group has identified a number of areas as requiring further development. These areas have been disclosed within the SIC and the Board intends to address them fully during 2008/09.

We are satisfied that the contents of the SIC are not inconsistent with information gathered during the course of our normal audit work.

### **3.8 Risk Management**

Sportscotland has in place a Corporate Risk Register and a Potential Future Issues Register in place. The Corporate Risk Register contains those risks which could potentially result in the closure of sportscotland or its business. Risks are identified across 5 business risk categories:

- Strategic
- Personnel
- Operational
- Financial
- Political/External Influence

The Potential Future Issues Register contains those potential issues which are not yet actual risks to sportscotland but may become a future risk. Departments also maintain separate departmental risk registers which are subject to review on a quarterly basis.

A review of risk management arrangements was undertaken by internal audit during the year which found no significant control weaknesses, but did identify scope for improvement in a number of areas. We are satisfied that appropriate management action is being taken against internal audit's recommendations.

## **3.9 Internal Audit**

### **3.9.1 Review of internal audit service**

Internal audit is a key component of the Board's corporate governance arrangements. The Board's internal audit service is provided by PricewaterhouseCoopers. We undertook a review of the work undertaken by PricewaterhouseCoopers to ensure it was sufficient in quality and volume and performed in accordance with accepted internal audit standards.

The conclusion from our review was that PricewaterhouseCoopers provides an effective internal audit service that complies with approved internal audit standards and demonstrates examples of best practice.

### **3.9.2 Co-ordination with internal audit**

To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work in the following areas:

- Risk Management Arrangements
- Financial Controls Self-Assessment
- Payroll and Expenses
- Scottish Institute of Sport Payroll and Expenses
- Scottish Sports Council Trust Company Budgetary Control

We are grateful to PricewaterhouseCoopers for their assistance during the course of our audit work.

## **3.10 Prevention and Detection of Fraud and Irregularity**

We are required to consider the arrangements made by management for the prevention and detection of fraud and irregularity. Our audit identified no issues of concern in relation to the sportscotland group arrangements.

## **3.11 Standards of Conduct, Integrity and Openness**

Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance.

Guidance on standards of conduct, accountability and openness has been issued by the Scottish Government.

Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national

and local Codes of Conduct. We also considered controls over ordering and procurement, registers of interest and disposal of assets.

We are pleased to report that our audit identified no issues of concern in relation to standards of conduct, integrity and openness.

# 4 Performance

## 4.1 Audit Scotland – Performance Overview of Sport in Scotland

In April 2008, Audit Scotland published their report ‘*A performance overview of sport in Scotland*’ which examined the structure of funding of sport and performance against national targets as well as reviewing the financial risks and rewards of hosting the 2014 Commonwealth Games.

The report highlighted that there is often not a clear link between the national strategy for sport and the delivery by local authorities across Scotland. It further recognises the need for a strategic approach by all involved to improve the nation’s sporting facilities.

There are significant risks associated with staging major events such as the Commonwealth Games. The report recognises that while arrangements for the games are at an early stage, they are crucial to safeguarding the investments made by Glasgow City Council and the Scottish Government. The estimated cost of hosting the games as at April 2008 was £373m. While sportscotland have no direct responsibility for the games, sportscotland are working with sports governing bodies to maximise high performance potential of athletes at the games as well as an overall increased participation in sports as part of the legacy of Glasgow 2014.

Sportscotland have issued the following response to the report:

*“sportscotland fully supports the three key messages arising from the Audit Scotland report. Our aim is to provide access to quality sports opportunities for everyone in Scotland and for that we do need to have the right infrastructure in place both in terms of a credible, enthusiastic network of people and quality facilities. We therefore welcome Audit Scotland’s recognition that a strategic approach is required for the nation’s sporting facilities. In addition, it is important that we maximise the opportunities provided by hosting the Commonwealth Games in Scotland in 2014 to stimulate increased participation and improved performance in sport.”*

## 4.2 sportscotland Corporate Plan Review

The sportscotland Corporate Plan for 2007-2011 was published in March 2007 following the Scottish Executive’s publication of Reaching Higher. The plan was based on the expected role of sportscotland within Reaching Higher and led to the agreement of seven corporate priorities for sportscotland. The SNP Government has confirmed its commitment to Reaching Higher and these priorities have remained the core of the Corporate Plan.

The corporate plan required to be reviewed during 2007/08 for the following reasons:

- Lottery investment strategy – further diversions of lottery funding by the Department of Media, Culture and Sport to the London 2012 Olympic and Paralympic Games had left a £7m shortfall in the original plan.
- Spending Review announcement – extra funding of £31m was announced in the review, but the funds held in the Central Unallocated Provision (CUP) were no longer available.
- Implications of sportscotland review – the integration of the Scottish Institute of Sport and the change in its funding from lottery to exchequer, the relocation and re-organisation of sportscotland.

The original Corporate Plan proposed the use of £260m of combined lottery and exchequer funding that also saw the lottery balance being reduced to zero. The revised plan has reduced the lottery funding being used to leave a balance of £10.6m in the sportscotland Lottery Fund in 2011. The decision to retain this balance has been taken to ensure that current spending levels can be sustained until 2014 and to allow sportscotland to contribute to the 2014 Commonwealth Games team and legacy development.

### **4.3 Glasgow 2014 Legacy**

Sportscotland has contributed to plans to ensure a lasting legacy is delivered to Scotland from the 2014 Commonwealth Games. The sporting legacy from the Games should be consistent high performance results at the Games but also an overall increase in sports participation.

The Scottish Government issued a consultation paper on this issue during the year, on which sportscotland commented. As part of the response sportscotland identified three priorities for the focus of resources in the lead up to 2014:

- Improving the physical literacy of Scotland's school children.
- Improving the provision and access to quality sports facilities in schools.
- Increasing and sustaining sport's volunteering workforce.

Long term planning is essential from both the Commonwealth Games and sportscotland to ensure that a lasting legacy is deliverable. The ideals noted in the response to the consultation are resource intensive – both in terms of workforce and financial resources. We will continue to review and report on the progress being made by sportscotland in delivering a lasting legacy from the Glasgow 2014 Commonwealth Games.

### **4.4 Cashback for Communities**

In January 2008, the Scottish Government awarded the Scottish Football Association (SFA) £2.2m over a three year period as part of their 'Cashback for Communities' scheme which

sees the re-distribution of funds obtained under the Proceeds of Crime Act 2002. The funding received by the SFA will allow them to build on previous initiatives which have been agreed by the Scottish Government as well as the development of women's football. In a similar award, the Scottish Rugby Union (SRU) has been awarded £1.4m over three years to allow them to link Scottish rugby initiatives at a club level.

Sportscotland were involved in the early discussions with the SFA and the SRU and continue to be involved with the Justice Department and other sport governing bodies with a view to extending the Cashback for Communities scheme in an advisory capacity. The Scottish Government have also recently announced that the scheme is to be extended to fund facility development in local areas. As Quality Facilities is a key priority of sportscotland which has been agreed by the Scottish Government, this may have an impact on the projects undertaken by sportscotland. We understand that sportscotland are in talks with the Sports Division of the Scottish Government regarding the role that sportscotland is likely to play in the distribution of future funds.

#### **4.5 Scottish Sports Council Trust Company**

As a result of concerns over the financial performance of the Scottish Sports Council Trust Company, a review was undertaken by PricewaterhouseCoopers into the future structure and status of the Trust Company during 2006/07.

The review concluded was that there were advantages to the National Sports Centres of remaining within a separate charitable legal entity but that there were a number of matters which required the attention of directors:

- Considering options to potentially mitigate against revaluation losses
- Ensuring a robust pricing strategy is in place supported by appropriate reporting and monitoring arrangements
- Ensuring the governance of the Trust Company meets the requirements of the Charities and Trustee Investment (Scotland) Act 2005

As noted in our 2006/07 annual report to the Board, we endorse the conclusions of PricewaterhouseCoopers. In particular we noted during our 2006/07 audit work that a costing model was being developed but was not yet in operation at all Centres. From our 2007/08 audit work it does not appear that this costing model has yet been implemented. In our view it is essential that proper costing models are used to assess course prices at all of the National Sports Centres and that regular monitoring information is produced and reviewed covering monthly income and expenditure for household and activity courses.

The Board of the Trust Company consists of members of the sportscotland Board who have all been appointed by the Scottish Ministers. Charity regulations issued by the Office of the Scottish Charity Regulator (OSCR) require that board members of charities are independently appointed. The review undertaken by Pricewaterhouse Coopers highlighted



that by not having independently appointed board members, the Trust Company was endangering its charitable status. The Trust Company had indicated that it would implement changes to the Board structure during 2007/08 but this has not occurred.

A separate external audit management report has been prepared for the Trust Company which provides further information on the audit of the Trust Company.

# 5 Finance

## 5.1 Annual accounts and audit timetable

We received draft annual accounts and working papers of an acceptable standard in line with the agreed timetable.

We are pleased to report that the accounts are due to be approved by the Board of sportscotland group on 24 June 2008 and are due to be submitted to the Scottish Government and the Auditor General for Scotland thereafter.

Scottish NDPBs are required to comply with the Government Financial Reporting Manual (FReM) when preparing their financial statements. The sportscotland group 2007/08 accounts comply with the requirements of the FReM in all material respects.

## 5.2 Unqualified Audit Opinion

Our audit opinions on the financial statements and the regularity of transactions for the sportscotland group and the sportscotland Lottery Fund are unqualified.

## 5.3 Financial Performance

### 5.3.1 Sportscotland

There has been increased funding from the Scottish Government during 2007/08 in an attempt to reduce the financial burden created following the abolition of the Central Unallocated Provision during the 2007 Spending Review. This has led to a significant increase in grant expenditure during the year. The financial results for the year are summarised below.

	2007/08 £m	2006/07 £m
Grant-in-aid	46,160	29,555
Other Income	1,645	1,288
<b>Total incoming resources</b>	<b>47,805</b>	<b>30,843</b>
<b>Expenditure</b>	<b>45,738</b>	<b>31,248</b>
<b>Surplus/(Deficit)</b>	<b>2,067</b>	<b>(405)</b>

The requirements of the Government Financial Reporting Manual (FReM) require that grant-in-aid is shown as funding rather than income and is credited directly to the General Fund.

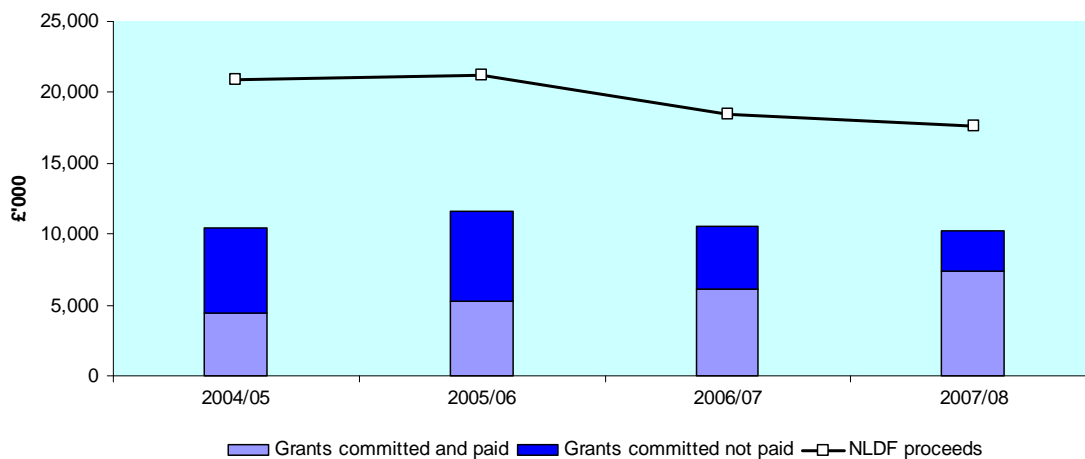
### 5.3.2 Sportscotland Lottery Fund

The sportscotland Lottery Fund received an allocation in 2007/08 of £17.589m from the National Lottery Fund and committed and paid £7.343m. Other hard commitments made during the year but still unpaid amounted to £2.840m. The total amount of grants paid during the year was £18.356m which represents the current year commitments plus £11.013m of previous year's commitments. After the deduction of net running costs a surplus of £4.142m was transferred to the General Fund. The total funds held under the stewardship of the National Lottery Distribution Fund at 31 March 2008 amounted to £48.175m. The Sportscotland Lottery Fund has hard commitments (obligations to pay lottery grants) of £8.514m at 31 March 2008 – a significant reduction in the commitment level at 31 March 2007 which was £16.686m. The remaining balance together with future forecast Lottery Funds will be required to meet the policies and plans set out in the sportscotland Corporate Plan 2007–2011.

The Lottery Fund's key financial aim is to maximise awards to individual governing bodies of sport and other third parties such as local authorities to meet the organisation's objectives outlined in the Corporate Plan. The Scottish Ministers have not set any formal financial targets for the Lottery.

The graph below provides a summary of the lottery commitments made and the proceeds received from the National Lottery Distribution Fund over the last four years. As in 2006/07 it shows a further decrease in the level of funding available to the sportscotland Lottery Fund following diversion of lottery resources to the London Olympic and Paralympic Games in 2012. The graph also shows that in 2007/08 there was a greater proportion of grants paid and committed in the same year, indicating that grants are being agreed on current and not future terms.

Annual Lottery Fund Grant Commitments and National Lottery Distribution Fund proceeds



### 5.3.3 Scottish Sports Council Trust Company

The Scottish Sports Council Trust Company made a net operating surplus in 2007/08 of £0.89m (2006/07 £0.79m) before other recognised gains and losses. This surplus includes a £0.471m impairment loss arising from the revaluation of Glenmore Lodge as at 31 March 2008. Excluding the impairment loss, the operating surplus for the year would be £1.361m, which is a significant improvement compared to the prior year. This is mainly due to grant income being received for the first time in 2007/08.

### 5.3.4 Scottish Institute of Sport

The Scottish Institute of Sport made an operating profit in 2007/08 of £0.19m before reimbursement of funds to the Lottery Fund. This was an improvement on the gain made in 2006/07 of £0.08m and this is mainly due to increased funding from the sportscotland Lottery Fund.

## 5.4 Relocation

The table below shows the current total expected costs of sportscotland's relocation to Glasgow.

	£'000
Redundancy	1,710
Pension Fund Strain	1,880
Travel and Transfer Costs	617
Business Continuity	100
Recruitment	178
Training	134
Staff Resources	268
Legal Fees	107
<b>Total</b>	<b>4,994</b>

### 5.4.1 Relocation provision

Financial Reporting Standards 12 – *Provisions, Contingent Liabilities and Contingent Assets* requires an entity to recognise a provision where the entity has an obligation as a result of a past event and it is probable that this obligation will result in expenditure. The Ministerial announcement of relocation created a constructive obligation that expenditure would be incurred and as a result a provision for expected relocation costs has been shown in the financial statements. FRS 12 states that provision should only be made for costs that will arise from relocation, and not costs that are associated with the ongoing activities of the entity. A provision has therefore been recognised for the redundancy and early retirement costs (shown as pension fund strain above) only. The remaining costs are considered attributable to the ongoing activities of sportscotland. The provision is based on the best estimate available to sportscotland at the time of preparing the financial statements.

The Ministerial statement announced that there would be no compulsory redundancies. SportsScotland staff who do not wish to relocate to Glasgow will be entitled to a compensation package of either voluntary redundancy or early retirement. The estimation of relocation costs has been based on the presumption that 80% of the 70 headquarters core members of staff would leave the organisation rather than relocate. This assumption is based on the results of a staff survey undertaken in a prior year.

Strathclyde Pension Fund has provided advice on potential costs for an ‘average’ employee in terms of age and length of service and this has been used to calculate estimated early retirement costs. A total provision of £3.590m has been recognised in the sportsScotland and the sportsScotland Lottery Fund financial statements (at note 10 and note 12 to the accounts respectively). The split of the provision is shown in the table below:

	Percentage Allocation	
	%	£'000
sportsScotland	65	2,334
sportsScotland Lottery Fund	35	1,256
<b>Total</b>		<b>3,590</b>

The provision has been split on the basis of the split of staff time and the length of time that each body has been in existence – recognising that sportsScotland has been in operation longer than the sportsScotland Lottery Fund and will thus face a higher share of costs.

## 5.5 Caledonia House

The current sportsScotland headquarters are based at Caledonia House in South Gyle, Edinburgh, where office space is also rented to sports governing bodies. During the year the large availability of office accommodation in South Gyle meant that there was a concern that the carrying value of Caledonia House was overstated. This was particularly concerning given the possibility that Caledonia House would be sold as part of the relocation of headquarters staff to Glasgow. A revaluation of the building was requested as at 31 March 2008 from the District Valuer of the Valuation Office Agency. The Caledonia House land and buildings were valued at £5m, which resulted in a downward revaluation of £1.8m being recorded in the financial statements under the requirements of FRS 15 – *Tangible Fixed Assets*. As the building had previously been revalued upwards by £2.7m there were sufficient revaluation reserves available to absorb the downward revaluation and there has been no affect on the operating deficit.

The relocation of sportsScotland to Glasgow will potentially leave Caledonia House surplus to the requirements of the business and the possibilities surrounding the future for Caledonia House are a standing item in the relocation papers that are presented to the Board for consideration. Whilst there has been a firm direction for sportsScotland to relocate to Glasgow, there has been no direction on what should happen to Caledonia House and the

decision has been left to sportscotland to determine. The Minister for Communities and Sport has confirmed that sportscotland will be able to retain any capital receipt in the event of the sale of Caledonia House, which it is then presumed will be used to purchase another headquarters building or be re-directed to other sportscotland objectives.

The current options being considered by sportscotland are as follows:

<b>Option</b>	<b>Points for Consideration</b>	<b>Financial Implications</b>
<b>Retention</b>	<ul style="list-style-type: none"> <li>• Sport governing bodies would be able to continue operating from the office space they currently utilise and allow the option of rental further to other operating bodies.</li> <li>• The Edinburgh hub could also be based at Caledonia House.</li> <li>• A commercial lease could also be entered into for an area of Caledonia House if not used for the purposes above.</li> </ul>	Lease income that would become payable on Caledonia House from the occupants is likely to match the anticipated lease costs of a new headquarters in Glasgow.
<b>Commercial Lease</b>	<ul style="list-style-type: none"> <li>• There is a current surplus of office accommodation available for rent in the area, and finding a tenant may take some time.</li> </ul>	Basic refurbishment costs would be incurred by sportscotland and costs would remain even if the property lay empty.
<b>Sale and Lease Back</b>	<ul style="list-style-type: none"> <li>• The risk and reward of ownership of Caledonia House will be passed to a third party.</li> <li>• The current surplus of office accommodation in the area may impact on the availability of such an arrangement.</li> </ul>	The expected value of Caledonia House has decreased. However, sale proceeds would be available in the short term to fund the relocation process.
<b>Sale</b>	<ul style="list-style-type: none"> <li>• Sport governing bodies would require to move out of Caledonia House.</li> <li>• An alternative property would require to be found for the Edinburgh Hub.</li> <li>• The surplus of office accommodation in the area could result in a lengthy search for a buyer.</li> </ul>	Proceeds of sale will be retained by sportscotland, but there is no guarantee that the sale would take place quickly. Further costs would be incurred in setting up the Edinburgh hub.

The options for Caledonia House will continue to be appraised by the Operational Change Group and the Implementation Group during 2008/09.

## 5.6 Glenmore Lodge

The Trust Company incurred expenditure in 2007/08 of approximately £0.9m for the construction of a new wing at the Glenmore Lodge centre. The cost of construction was capitalised as a fixed asset, but the resulting demolition of the old wing was not removed as a disposal in the financial statements. On this basis a decision was taken to undertake a formal revaluation of the Lodge as at 31 March 2008 and reflect any resulting gain or loss in the financial statements. The District Valuer of the Valuation Office Agency undertook the revaluation of the land and buildings at 31 March 2008 and valued these at £2.66m. This resulted in an impairment loss arising in the year of £0.471m which has been recognised as required by FRS11 - *Impairment of Fixed Assets and Goodwill*. This is included at note 5.1 in the sportscotland group accounts as the loss on revaluation of assets.

## 5.7 2007 Spending Review

As noted at section 4.2, the Corporate Plan was reviewed during the year. While the funding priorities and investments have remained the same, there has been some movement in the funding that is planned to be awarded. The table below outlines the changes.

	Original Funding Commitment £m	Revised Funding Commitment £m
Active Schools Network	52.000	45.000
Coaching	9.000	8.940
Community Sport	12.000	10.502
Performance Development	46.000	47.728
Quality Facilities	100.000	76.154
Strong Partners	20.000	23.472
A Strong sportscotland	31.000	37.944
<b>Total</b>	<b>270.000</b>	<b>249.74</b>

### 5.7.1 National Regional Sports Facilities Strategy

Included within Quality Facilities are monies intended for the National Regional Sports Facilities Strategy (NRSFS). The original commitment for NRSFS was £60.5m and included developments at Sighthill in Edinburgh, Forthbank Sports Village in Stirling as well as

developments in Toryglen, Scotstoun and Ravenscraig. The funds that had been allocated for NRSFS as part of the original Corporate Plan 2007-11 were being held in the Central Unallocated Provision (CUP) which was abolished as part of the 2007 Spending Review. In an attempt to offset the loss from the abolition of the CUP, £13.7m was made available to sportscotland by the Scottish Government during 2007/08, which brought the total spend on NRSFS at 31 March 2008 to £18.9m.

In addition to the funding that was obtained during 2007/08, there have been a number of decommitments registered during the year – where projects that were due to receive funding have been delayed or withdrawn. Taking into account the level of decommitments, it looks likely that there will be a funding shortfall to complete the planned programme.

	£m
Original planned investment	60.5
Less: Spend to 31 March 2008	18.9
Less: Decomitments	16.4
<b>Outstanding planned investment</b>	<b>25.2</b>
Funding available in revised plan	20.0
<b>Funding shortfall on NRSFS</b>	<b>5.2</b>

The potential shortfall noted above is a minimum figure and cannot take account of the potential for future price increases on large capital projects or for modifications to the funding requirements from the sponsored body. There is also the potential for projects that are currently being marked as withdrawn to be resubmitted. The NRSFS is an important strategy for sportscotland, especially as the Glasgow 2014 Commonwealth Games approaches and Scotland looks towards building a legacy from the Games. We will continue to monitor progress with this priority over the coming years.

### **5.7.2 A Strong sportscotland**

A Strong sportscotland is the priority associated with the administration costs of sportscotland. This priority has seen a large jump in the expected investment until 2011 due to the expected costs of relocation to Glasgow. Current estimates are that the relocation is likely to cost approximately £5m over the financial years 2007/08 to 2013/14 and in recognition of this an additional £4m has been awarded to sportscotland for the 2009/10 financial year through grant-in-aid funding from the Scottish Government.

## **5.8 Glasgow 2014 Investment**

As noted at section 4.1, the 2014 Commonwealth Games will cost a significant amount of money to stage and this is being funded by Glasgow City Council and the Scottish Government. The investment in the 2014 games by sportscotland is aimed at enhanced performance and constitutes additional resources to the games, not core funding. The



funding model aims to financially support sport specific coaches and managers firstly, then elite athletes through the high performance arm of sportscotland and lastly will fund athlete personal awards. The spend pattern has been profiled to rise from £2.725m in 2008/09 to £7.7m in 2013/14.

## **5.9 Prior Year Adjustments**

There have been two prior year adjustments noted in the 2007/08 group financial statements.

### **5.9.1 Government Grant Reserve**

The Government Financial Reporting Manual (FReM) requires that grant-in-aid received is treated as funding rather than income and is credited directly to the general fund. The FReM also requires that fixed assets that have been purchased by means of a specific amount of grant-in-aid should be credited to a Government Grant Reserve, which is then released over the life of the asset to the income and expenditure account which will match the charge for depreciation. Fixed assets that have been purchased through general grant-in-aid should be credited to the General Fund.

sportscotland has previously recognised grant-in-aid used to purchase assets as deferred capital grants and has amended its accounting policy to comply with the FReM. This change in accounting policy has resulted in a prior year adjustment.

sportscotland has identified that it had one asset partly purchased with specific grant-in-aid – Caledonia House - and the Scottish Institute of Sport also had assets purchased with specific grants. The effect of this in the group accounts is that the deferred grant account that was shown in prior years has now been split between the Government Grant Reserve and the General Fund.

### **5.9.2 Pension Liability**

All member companies of the sportscotland group are admitted bodies in the Strathclyde Pension Fund; however, as all sportscotland Lottery Fund employees have contracts of employment with sportscotland, it is sportscotland that is the admitted body in the pension fund. In prior years the pension assets and liabilities have been split between sportscotland and the sportscotland lottery fund on the basis of the current split of staff time. We discussed this accounting policy with sportscotland management and agreed that this treatment did not show the true obligations.

In the 2007/08 financial statements sportscotland have shown the full pension asset as at 31 March 2008 as an asset of sportscotland. A long term debtor has been identified in the sportscotland lottery fund accounts representing their share of the asset as at 31 March 2008. This has been matched to a creditor to the sportscotland Lottery Fund in the sportscotland financial statements.

This change in accounting policy has resulted in a prior year adjustment in both sportscotland group financial statement and the sportscotland Lottery Fund financial statements.

The method of apportioning pension costs between sportscotland and the sportscotland Lottery Fund has also changed during the year to reflect the fact that the sportscotland Lottery Fund has not been in operation for the full amount of time that sportscotland has.

## **5.10 Financial Management**

The sportscotland group has a responsibility to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider the sportscotland group's arrangements for financial planning, budgetary control and financial reporting.

We are pleased to report that we did not identify any areas of concern with regards to the Board's financial management arrangements.

## **5.11 IFRS Implementation**

The 2007 budget speech intimated the decision to adopt IFRSs for in public sector accounting by 2008/09. During the 2008 Budget speech the Chancellor postponed the implementation until 2009/10. Whilst this does not have an immediate impact on sportscotland's group accounts the Board should be aware of this issue as it could have significant implications in the future.

# 6 Action Plan

Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2007/08. These are the issues that we believe need to be brought to the attention of the Board.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

We have also followed up all action points that were raised in our 2006/07 management report and where appropriate have raised further action points in 2007/08.

## 6.1 Priority Ratings

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Priority 1	High risk, material observations requiring immediate action.
Priority 2	Medium risk, significant observations requiring reasonably urgent action.
Priority 3	Low risk, minor observations which require action to improve the efficiency, effectiveness or economy of operations or which otherwise require to be brought to the attention of senior management.

## 6.2 Action points arising from our 2007/08 audit of sportscotland and sportscotland Lottery Fund

Title	Issue Identified	Risk and Recommendation	Management Comments
<p><b>Payroll</b></p>	<p>We identified that limited working papers have been retained by the Payroll Manager to support the monthly payroll journals during the year. Working papers that were retained were not kept in an orderly fashion.</p> <p>In addition we found that although a new payroll system has been implemented it is not being used to its full potential as payroll calculations are continuing to be carried out on a spreadsheet.</p> <p>Whilst we recognise that there have been exceptional circumstances that have resulted in the issues identified above, we recommend that improvements are made to these working practices.</p>	<p>If working papers are not retained, there is a risk that the audit trail is lost and the system is more susceptible to being manipulated and erroneous entries being made.</p> <p>Using a spreadsheet to calculate pay costs is open to human error and should not be continued.</p> <p>We recommend that time is invested into the new payroll system and its capabilities are properly understood and used. In addition we recommend that a full audit trail is maintained.</p> <p><b>Priority 2</b></p>	<p>Agreed.</p> <p>There have been various reasons for the points noted, but the recommendations are correct and will be actioned immediately.</p>

Title	Issue Identified	Risk and Recommendation	Management Comments
<b>Aged Debtor Balances</b>	We reported in 2006/07 that a substantial number and amount of debtor balances at 31 March 2007 were over 5 months old. Our 2007/08 audit found that there was still a high level of debtor balances that were over 5 months old, with some being over 1 year old.	Debts which are unlikely to be recovered should be written off. Whilst we understand that these older debts are mainly due from other public sector bodies we recommend that improved debt collection procedures are implemented.  <b>Priority 2</b>	Agreed.  This will be carried out immediately.
<b>Cash Collection Procedures</b>	In accordance with good practice, cash and cheque payments are always received and recorded by two officers. However, our testing noted that on several occasions the daily cash sheet which is completed to record payments received was only signed by one of the officers.	There is a risk that if controls are not being complied with there could be a misappropriation of public funds.  The daily cash sheet should be signed by both officer responsible for receiving and recording payments.  <b>Priority 3</b>	Agreed.  This will be carried out immediately.

Title	Issue Identified	Risk and Recommendation	Management Comments
<p><b>Purchase Ledger Cut-Off</b></p>	<p>We found during our testing of year end expenditure that a number of items had been incorrectly recorded in the financial ledger meaning that they were excluded from the year end accounts. Most notably we found that invoices received post year end but which related to the previous financial year were recorded as expenditure within the 2008/09 financial ledger and not treated as a creditor as we would have expected.</p>	<p>There is a risk that trade creditors become materially misstated in the financial statements.</p> <p>We recommend that detailed cut-off procedures are issued and followed to ensure that transactions around the year end are recorded correctly. We would recommend that all invoices received around the year end are reviewed to ensure that they are correctly allocated to the appropriate financial year.</p> <p><b>Priority 3</b></p>	<p>Agreed.</p> <p>This is part of the year end procedures, which will be re-inforced immediately and particularly for the 2008/09 year end.</p>

### 6.3 Action points arising from our 2007/08 audit of the Scottish Institute of Sport

Title	Issue Identified	Risk and Recommendation	Management Comments
<p><b>Purchase Ledger Cut-Off</b></p>	<p>We noted during the course of the audit that purchase ledger cut-off had not been operated correctly at the year end. April 2008 invoices had continued to be posted to the March 2008 purchase ledger.</p> <p>Although Finance staff had identified a number of these items and created corresponding prepayments, this error lead to increased audit work and an audit adjustment being raised.</p>	<p>There is the risk that trade creditors could be materially misstated in future accounts.</p> <p>We recommend that only invoices dated prior to the year end should be posted to the purchase ledger for the period to the year end.</p> <p><b>Priority 2</b></p>	<p>In future only invoices dated prior to the year end will be posted in March of each year</p>

Title	Issue Identified	Risk and Recommendation	Management Comments
<p><b>Payroll - Leavers</b></p>	<p>We noted during audit work at the Scottish Institute of Sport that the details of two leavers were not passed to HQ leading to the individuals concerned being paid after leaving the company. This money was subsequently recovered by the company.</p>	<p>There is the risk that staff time is wasted following up recovery of overpaid monies. Subsequent to this there is the risk that the money becomes irrecoverable.</p> <p>We noted in discussions with finance staff that the monthly payroll is now fully reviewed by management before being sent to HQ to avoid this issue occurring again. We recommend that this practice continues.</p> <p><b>Priority 1</b></p>	<p>As stated we have put additional checks to ensure that this situation will not happen again. Payroll changes are prepared by the Operations Manager, checked by the PA to the Director of Performance and signed by the Business and Operations Manager.</p>





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