



**SCOTT-MONCRIEFF**

EDINBURGH AND GLASGOW



**sportscotland group**

**Annual Report to the Board and the  
Auditor General for Scotland**

**August 2009**



## sportscotland group

# Annual Report to the Board and the Auditor General for Scotland

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# Executive Summary

## Financial Statements

Our audit of the 2008/09 financial statements is complete and our audit opinions are unqualified. The financial statements for the sportscotland group report a deficit of £293,000, and the sportscotland lottery fund, a surplus of £2.383m. The Scottish Sports Council Trust Company who form part of the sportscotland group recorded a small surplus of £73,000.

The financial statements of the sportscotland group include provision for all relocation costs likely to be incurred. Comparative figures have been restated in both the sportscotland group and sportscotland lottery fund financial statements to remove relocation costs recharged in 2008 to the lottery fund.

Two adjustments that we considered to be material to the financial statements have been processed during our audit. Firstly an adjustment of £630,000 was made to correct the indexation charge applied to fixed assets. Secondly an adjustment of £500,000 was made to the relocation provision. Other potential adjustments, which we do not consider to be material have been appended to our letter of representation which will be presented to the Board with the annual accounts and this report.

## Use of Resources

Sportscotland's relocation to Glasgow, as directed by the Scottish Ministers, was completed by 31 March 2009. The interim headquarters of sportscotland at Templeton on the Green were officially opened by Shona Robison, MSP – Minister for Communities and Sport on 30 March 2009.

During the 2008/09 financial year, £3.2m of expenditure was incurred regarding staff relocation costs. A further £3.7m has been provided for in the 2008/09 annual accounts for spend in 2009/10.

A Statutory Instrument was issued by the UK Government during 2008 which allows for the transfer of over £1billion from all National Lottery Distribution Funds in the UK to the Olympic Lottery Distribution Fund. The first instalment of £878,000 was made in February 2009. Overall the sportscotland Lottery Fund will contribute £11m from their funds towards the London 2012 Olympics.

## Performance

The Corporate Plan 2007-11 was updated during 2008/09. This was to reflect changes to the organisation and also to ensure that it was consistent with the framework of the Outcome Based Planning Process that is required by the Scottish Government.

## **Governance**

There have been a number of changes to the Board membership during 2008/09. Three members of the former Scottish Institute of Sport Board were co-opted on to the sportscotland Board in February 2008. One of these members, Louise Martin CBE, was then appointed as Chair of sportscotland in June 2008 by Scottish Ministers. Three members resigned by rotation during the year with a further three being appointed by Scottish Ministers in December 2008. Our audit has identified that the formal Board minutes did not formally record all of the changes to Board structure and committee membership.

The Scottish Sports Council Trust Company continues to operate without a formal funding agreement with sportscotland. Such a funding agreement is required to ensure an appropriate arms-length relationship exists between sportscotland and the Trust Company as a charity.

## **Looking Forward**

In order to comply with deadlines set by Audit Scotland, the 2008/09 accounts must be restated on an IFRS basis by 28 November 2009 and an audit review of these accounts should be completed by 28 February 2010. Following this, the 2009/10 financial statements will be prepared in accordance with the International Financial Reporting Manual (iFReM).

As from midnight 31 March 2009, the Area Institutes of Sport which were formerly run by Local Authorities were merged into the business of sportscotland. 2009/10 will be focussed on ensuring that the aims and outcomes of these institutes are also merged with sportscotland

## **Conclusion**

This report concludes our audit of the sportscotland group for 2008/09. 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 Director of Corporate Services and Head of Finance. We would like to thank all management and staff for their co-operation and assistance during our audit.

**Scott-Moncrieff**  
**August 2009**

# Introduction

1. This report summarises the findings from our 2008/09 audit of the Scottish Sports Council (sportscotland) and the Scottish Sports Council Trust Company which form the sportscotland group and the Scottish Sports Council National Lottery Fund, commonly known as the sportscotland Lottery Fund. The scope of our audit was set out in our external audit strategy and plan, which was presented to the Audit Committee in January 2009.
2. 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 sportscotland to prepare separate statements of accounts relating to these activities.
3. sportscotland is the sole guarantor of the Scottish Sports Council Trust Company, a charitable trust company which administers activities at three national sports centres (Inverclyde, Glenmore and Cumbrae). Sportscotland is required to consolidate the results and financial position of the Trust Company to prepare one set of group financial statements. Our audit covers the group as a whole.
4. Scott-Moncrieff have been appointed independently as auditors to the Scottish Sports Council Trust Company and a separate management report has been issued in relation to the 2008/09 audit.
5. The main elements of our audit work in 2008/09 have been:
  - Audit of the financial statements, including a review of the Statement on Internal Control
  - Review of 31 March 2008 balance sheet restated under International Financial Reporting Standards (IFRS)
  - Review of governance arrangements, internal controls and financial systems
6. As part of our audit, we have also made use of the work of other bodies including the internal audit service provided to sportscotland by PricewaterhouseCoopers.
7. This report will be presented to the Auditor General for Scotland and will be published on Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

# Financial Statements

## Introduction

8. Financial statements are a key way for sportscotland and the sportscotland Lottery Fund to account for stewardship of the resources made available to them. In this section we set out our audit opinions and summarise the issues found as a result of our audit work on the financial statements. We also report on the work which we have previously undertaken on International Financial Reporting Standards (IFRS).

## Our responsibilities

9. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of the sportscotland group and the sportscotland Lottery Fund and their expenditure and income for the period in question
  - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
  - the consistency of the information which comprises that part of the operating and financial review which covers principal activities and financial performance included in the financial statements
  - the regularity of the expenditure and receipts.
10. We also review the Statement on Internal Control by:
- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control
  - assessing whether disclosures in the Statement are consistent with our knowledge of the sportscotland group and the sportscotland Lottery Fund.

## Overall conclusion

11. We are pleased to report that our independent auditors' report expressed an unqualified opinion on the financial statements of the sportscotland group and the sportscotland Lottery Fund for the year ended 31 March 2009 and on the regularity of transactions reflected in those financial statements.
12. The annual accounts will be submitted to the Scottish Government and the Auditor General for Scotland prior to the 31 October 2009 deadline.
13. We received initial draft annual accounts and supporting papers on 13 July 2009 with an updated set of annual accounts on 29 July 2009. The accounts were agreed at an audit clearance meeting with the Head of Finance on 8 August 2009. During the audit some difficulties were encountered

in obtaining transaction details and explanations due to the changeover in staff. The lack of continuity in staffing also contributed to difficulties encountered in tracing transactions of the group through to the financial statements. Despite this, we are pleased to report that the audit process has been completed and our thanks go to the finance team for their assistance with our work.

## **Issues arising from the audit**

14. We are required by auditing standards to report to the Board the main issues arising from our audit of the financial statements. The most significant issues are noted below. Those issues that we do not consider to be significant are not noted below but have been included within the action plan at the end of this report.

### **Fixed Asset Register**

15. In order to maintain a record of the fixed assets utilised by the group, sportscotland have a software package – Asset-Pro – which records valuations, depreciation, revaluation and indexation calculations on all tangible fixed assets. During our audit we uncovered several issues with the software, which has necessitated changes to the financial statements.

16. Indexation is a calculation performed on the value of fixed assets and is intended to be used as an interim valuation for assets that are being valued on a five year cycle. Indices are obtained from the National Statistics Office based on inflation indicators which are then applied to the values of assets held. Whilst preparing the 2008/09 financial statements incorrect indices were used for two categories of assets (Fixtures & Fittings and Equipment). Audit work concluded that the indexation charge had been overstated by £636,000. Given the materiality of this figure we requested that an adjustment was made to the initial draft accounts, which has been made.

17. The indexation calculated by Asset-Pro also affected the depreciation charge for the year. We estimate that there is a potential error in the value of depreciation included in the accounts of £80,000. We do not however, consider this to be material and as such have included it as a potential adjustment that will be within our letter of representation.

18. We also noted that the £1.8m impairment on Caledonia House that was recorded as at 31 March 2008 has not been able to be recorded in Asset-Pro and the asset is still included at its prior value of £6.8m. Following the errors noted with depreciation and indexation this year we recommend that a detailed review of all assets held in Asset-Pro and their corresponding values is undertaken to ensure that assets are held at a materially correct value.

### ***Action Plan Point 1***

### **Split of Payroll Costs**

19. All sportscotland and sportscotland Lottery Fund staff are employed by sportscotland who process the payroll for the group. In order to reflect the nature of staff costs, the total payroll costs are split on a percentage basis based on the time allocation of staff members between the two organisations. This split is based on historic information and uses job roles and responsibilities.

Following the restructuring of the organisation and the creation of new roles, there is a risk that the percentage split figure being used is not representative of the work that is now being undertaken. We recommend that an exercise is undertaken to ensure that the percentage split that is being applied is an accurate reflection of the work that is being undertaken for the two organisations.

#### ***Action Plan Point 2***

20. The direction given to sportscotland by the Scottish Ministers requires them to follow the guidance in the Financial Reporting Manual (FReM). The FReM requires that a remuneration report is included within the annual accounts. As well as disclosing salary amounts for the senior management team of the organisation this should also show the benefits in kind received and details of the Cash Equivalent Transfer Value (CETV) of the individual's pension.
21. CETV demonstrates the value of total future payments the member of the pension fund has accrued in their service. No CETV figures have been obtained for the Chief Executive or any other members of the senior management team who have been shown in the remuneration report. The requirement for this information is included in the FReM and was also highlighted by external audit during our interim audit in February 2009 but has still not been obtained. To ensure compliance with the FReM in future years these figures must be obtained from the Strathclyde Pension Fund and the Scottish Teachers Superannuation Scheme.

#### ***Action Plan Point 3***

### **International Financial Reporting Standards (IFRS)**

22. As announced by the Chancellor of the Exchequer in his Budget report on 12 March 2008, government departments and other public sector bodies will prepare financial statements under IFRS from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish government departments, executive agencies, health bodies and non-departmental public bodies will be required to produce shadow IFRS based accounts for financial year 2008/09 (with the exception of bodies reporting under the Charities SORP). This led to the production of a restated balance sheet as at 1 April 2008.
23. We undertook a review of the sportscotland and the sportscotland Lottery Fund opening 2008 IFRS balance sheet in January 2009 and reported our findings and recommendations to the Audit Committee in March 2009. Our report set out a series of actions to be considered when completing the full restatement exercise.
24. The 2008/09 accounts must be restated on an IFRS basis by 28 November 2009 and an audit review of these accounts should be completed by 28 February 2010.

### **Statement on Internal Control**

25. As part of our audit we have considered the Statement on Internal Control, included within the annual accounts of all entities. We are satisfied that the Statement is consistent with guidance



included in the Government Financial Reporting Manual (FReM) and that the contents are not inconsistent with information gathered during the course of our normal audit work.

## **Regularity**

26. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers. We have issued an unqualified opinion on the regularity of transactions in both the sportscotland and the sportscotland Lottery Fund accounts.
27. We have also concluded that the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with guidance issued by Scottish Ministers, and that information in the Report of the Council which is included with the Annual Accounts is consistent with the financial statements.

# Use of Resources

28. This section sets out our main findings from our review of how sportscotland manages its key resources in terms of:

- Its financial position;
- Management of assets and people during relocation.

## Financial performance in 2008/09

29. The sportscotland group has achieved a surplus in year, which is demonstrated in the table below:

	2008/09	Restated
	£'000	2007/08
		£'000
Grant-in-Aid	40,717	44,986
Other Income	3,982	8,435
	44,699	53,421
Sports Development Costs	29,974	39,713
Other Expenditure	15,018	18,144
	44,992	57,857
<b>Deficit for year</b>	<b>(293)</b>	<b>(4,436)</b>

30. The deficit for the two years includes redundancy and early retirement costs that have been made following the relocation to Glasgow in April 2009. At 31 March 2009 a provision of £3.732m was included within the financial statements in relation to estimated redundancy and early retirement costs still to be paid. The Board have been kept apprised of the financial situation at regular intervals during the year.

31. During 2007/08 funding to sportscotland was significantly increased in an attempt to reduce the burden created following the abolition of the Central Unallocated Provision during the 2007 spending review. Grant-in-aid was increased for 2008/09 to fund the expected relocation costs and also to fund the activities of the former Scottish Institute of Sport. Overall the grant-in-aid has decreased slightly from the high level obtained in 2007/08.

32. The sportscotland Lottery Fund has also achieved a surplus in year, demonstrated in the table below:

	<b>2008/09</b>	<b>Restated</b>
	<b>£'000</b>	<b>2007/08</b>
		<b>£'000</b>
National Lottery Fund Proceeds	17,599	17,589
Other Income	240	239
	<u>17,839</u>	<u>17,828</u>
Grant Expenditure	9,197	7,343
Other Expenditure	6,259	5,087
	<u>15,456</u>	<u>12,430</u>
<b>Surplus for year</b>	<b>2,383</b>	<b>5,398</b>

33. Grant expenditure has increased on the level that was recorded last year. This is in part due to funding for sports and facilities being made in preparation for the Glasgow 2014 Commonwealth Games to ensure that there is a stable platform for performance to be improved upon. There have also been reductions in the total National Lottery Distribution Funds for all vendors as outlined at paragraph 42.

## Relocation Expenditure

34. In recognition of the expected costs of relocation in the 2008/09 financial year a provision totalling £3.6m was recognised in the 2007/08 accounts of sportscotland and the sportscotland Lottery Fund (split £2.3m and £1.3m respectively). This provision was based on the best estimate of costs available to sportscotland at that time. In 2008/09 the Council have agreed that all relocation costs should be borne by the sportscotland group and no recharge should be made to the sportscotland lottery fund. This has been treated as a change in accounting policy and the 2007/08 financial statements have been restated to exclude any recharge to the lottery fund and to include all costs within sportscotland.. A breakdown of the amounts within the 2008/09 financial statements in relation to the brought forward provision is shown below:

	<b>Sportscotland</b>
	<b>group</b>
	<b>£'000</b>
Provision at 31 March 2008	(3,674)
Redundancy and early retirement payments	2,409
Other relocation payments	839
<b>Total Payments</b>	<b>3,248</b>
Provision Remaining	(426)

35. The redundancy and early retirement payments are for the 42 members of staff who opted not to relocate to Glasgow. Other relocation payments include training costs for all new members of staff as well as recruitment costs for posts that had been made vacant.

36. Under the package of 'reserved rights' that were established at the start of the formal relocation process in 2008, staff members were eligible to claim for early retirement or voluntary redundancy packages by 31 December 2008. Those that had not expressed a wish to leave sportscotland relocate to Glasgow between January and March 2009. Members of staff that did relocate to Glasgow are still entitled to potential redundancy or early retirement payments until 30 September 2009 under the 'reserved rights' package. At the time of our audit ten members of staff have confirmed their intention to take this option and leave the organisation by 30 September 2009. Those who do not leave the organisation will be entitled to a retention bonus equating to 22% of salary at 1 April 2009. This will be paid in decreasing increments over the next three years
37. In recognition of the further likely costs of relocation £3.7m has been provided for in the sportscotland group 2008/09 annual accounts. This can be analysed as follows,

	<b>Sportscotland group £'000</b>
Redundancy and Early Retirement	2,737
Strain on Pension Fund	783
Retention Payments (3 years)	210
<b>Total</b>	<b>3,730</b>

38. Pension fund valuations and contributions are based on actuarial calculations of the expected cost of paying pensions from the age of 65 until death. When an early retirement is granted, these costs are increased which puts a strain on the pension fund which has to be met by the employer. The strain costs included above have all been calculated by Strathclyde Pension Fund and are only for those members of staff who have taken early retirement up to 30 September 2009. As these payments only require to be made on an annual basis in October, payments for retirements before 31 March 2009 have also been included.
39. Retention payments were introduced to reward staff who had remained with sportscotland through the relocation process and to aid business continuity. Payments will be made on an annual basis from December 2009 to December 2011 and will not be consolidated into basic salaries. The payments are based on the salary in place at the point of the retention payment and are structured as follows;

<b>Payment Date</b>	<b>% of Salary</b>
1 <sup>st</sup> Payment – 31 December 2009	10
2 <sup>nd</sup> Payment – 31 December 2010	7
3 <sup>rd</sup> Payment – 31 December 2011	5

40. The provision as at 31 March 2009 has provided for retention payments only for those members of staff that had at that time confirmed that they would stay with sportscotland. The cost is likely to increase during the year as the remainder of staff make decisions on their 'reserved rights' packages.
41. The costs of relocation are significant and we will continue to monitor the expenditure incurred by sportscotland as the process continues.

## National Lottery Distribution Fund Movements

42. In February 2008, SI 2008 No.255 '*The payments into the Olympic Lottery Distribution Fund etc.*' was passed by the UK Government. The purpose of the statutory instrument was to allow for the transfer of £1,085m of future lottery income to be passed to the Olympic Lottery Distribution Fund (OLDF). The total amount will be paid to OLDF in thirteen instalments of £73m and a further two instalments of £68m. These instalments will be taken from every National Lottery Distribution Fund in the UK between 1 February 2009 and 1 August 2012. Sportscotland's share of the initial, larger instalments is £878,000, bringing the total that the sportscotland Lottery Fund will divert to OLDF to nearly £11m.
43. An accounting treatment has been adopted by all organisations that have been affected by this transfer of funds in order to demonstrate transparency within the financial statements. The first instalment of £878,000 has been shown as expenditure. This is shown in note 3.5.2 to the accounts and is included in the grants paid line of the reconciliation of movement of funds.

# Performance

## Introduction

44. To ensure effective performance the Board needs both a clear strategy that defines what it aims to achieve and the mechanisms it requires to effectively monitor and measure its outputs.

## Corporate Plan

45. The sportscotland corporate plan 2007-2011 was refreshed in 2009 and a new corporate plan 2009-2011 was produced. The plan was updated following significant changes to the organisation and builds on the success of the first two years of the corporate plan. There was also a requirement from the Scottish Government that the corporate plan would follow the framework of their outcome based planning process. The plan is driven by the Scottish Government's national performance framework - Scotland Performs - and the national strategy for sport – Reaching Higher.

46. A summary of the priorities, proposed actions and indicative investments has been detailed below:

Priority	Proposed Actions	Indicative Investment (£m)
Schools and Community Sport	Invest in Active Schools Partnership Agreements Support development of the Scottish Government's 2014 Legacy Proposals	15.5
Performance Development	Support Scottish Governing Bodies in their programmes at national, regional and local levels	8.3
High Performance Sport	Develop a performance strategy for Scotland for 2009 to 2016	7.3
Coaching and Volunteering	Working with Scottish Governing Bodies to identify and address coaching needs Support the recruitment and training of coaches	2.1
Quality Facilities	Develop, provide and maintain quality facilities at sportscotland national centres Invest in the refurbishment, replacement and development of sports facilities in Scotland	17.0
Stronger Partners	Create and develop strong partnerships with local authorities and community planning partners	5.0
Stronger sportscotland	Embed organisational change process Establish and implement organisational development plan	10.5

47. 2009-2011 is an ambitious growth time for sport in Scotland and the rest of the UK. There are unique opportunities afforded by London 2012 and Glasgow 2014 to showcase the investment that has been made in sports development. The corporate plan sets out how sportscotland aims to achieve the 15 performance outcomes set by the Scottish Government through its existing

priorities. The plan summarises the total indicative investment in sport over the next two years as £133.5m of which the majority is sourced by the Scottish Government.

48. Each priority has a set of targets and outcomes which form the basis of corporate plan reporting. This is reported to the sportscotland Board regularly. During the year there have been improvements noted in performance in all priorities. We will continue to review progress against the plan.

## **2014 Legacy Plans**

49. The coming years provide a unique opportunity for sport in Scotland and the rest of the UK to leave a legacy. This is not just in terms of the sporting facilities that are built for the Commonwealth and Olympic Games, but the health of the nation following the games. The Scottish Government are keen to capitalise on this and have set up a 2014 Legacy Group which comprises of more than 30 organisations. A sub-group specifically for sport has been set up also, which the Chief Executive of sportscotland chairs.

50. The remit of the sport sub-group has been set as follows,

- Maximising sports development, participation, facilities and associate benefits
- Maximising the ways that the Games, and more importantly events in the build up to the Games, can be used to inspire the Scottish people, particularly the younger generation to become involved in sport
- Maximising Scotland's chances of having many medal winning athletes at both Games
- Helping ensure that Scotland is prepared for the increase in interest and participation in sporting following both Games
- Gaining knowledge and experience from London 2012 to help plan and stage Glasgow 2014.

51. An interim legacy plan was produced by the Scottish Government at the end of December 2008 which will be kept under review by the Legacy Group and updated as necessary. Through the position that sportscotland have on the Legacy Group and the partnerships they have formed with Sports Governing Bodies and Local Authorities, sportscotland should be well placed to ensure that steps are taken to ensure that Scottish sport is given a lasting legacy from Glasgow 2014.

## **National and Regional Sports Facilities Strategy**

52. In May 2004 the sportscotland Board allocated funding of £48m to the National and Regional Sports Facilities Strategy (NRSFS). The strategy was looking for large projects that would give benefits to sport at a national and regional level. It was agreed that the funding would be split between six applicants for ten projects. To ensure fairness a two stage application process was put in place.

53. All local authorities were invited to apply for funding as part of the first stage of the NRSFS funding. This allowed sportscotland to review all applications simultaneously and decide which projects best suited the aims and objectives of NRSFS. Following deliberation, ten projects were picked from six applicants and an indicative level of funding agreed. These amounts were not treated as commitments by the applicants, but as an indication of the maximum funding that would be available to them under the strategy. Stage one was completed in 2005.
54. Stage two of the process required sportscotland to review the ten projects and assess their progress and whether they had been developed in line with the strategy and conditions attached to funding. Where funding was also being obtained from other sources, this had to be in place before stage two funding would commence. Payment has been made on seven of the ten projects approved, with three projects being withdrawn by the applicant.
55. A summary of the maximum level of awards made is shown below;

Organisation	Project	Stage One Allocation	Stage Two Allocation
		£m	£m
Stirling Council	Forthbank	2.5	2.5
City of Edinburgh Council	Royal Commonwealth Pool	4.0	5.0
	Ratho Adventure Centre	0.0	1.0
Aberdeen City Council	Chris Anderson Stadium	5.0	7.0
Glasgow City Council	Scotstoun Municipal Stadium	4.5	4.5
	National Indoor Sports Arena and Velodrome	13.5	13.5
	Toryglen Indoor Football Facility	3.0	3.0
North Lanarkshire Council	Ravensraig	5.0	7.0
		<b>37.5</b>	<b>43.5</b>

56. The award which did not have an allocation at stage one was funding granted to the City of Edinburgh Council at the request of the Scottish Government. The £1m requested was to allow them to purchase and upgrade the Ratho Adventure Centre.



# Governance

57. This section sets out the main findings arising from our review of the sportscotland group's governance arrangements as they relate to:

- Corporate Governance
- Risk management
- Internal audit arrangements

## Corporate governance

58. Our work on corporate governance focussed on our review of the Board's arrangements to ensure effective systems of internal control, prevention and detection of fraud and irregularity and standards of conduct and prevention and detection of corruption. We are pleased to report that governance arrangements at sportscotland are generally strong.

## Risk management

59. Risk management is important to the establishment and regular review of systems of internal control. Risk management arrangements at sportscotland are relatively well developed. Updates to the risk register are undertaken on a 6-monthly basis by a risk management group and this is then reported to the Audit Committee for approval. In addition to the central risk register a number of departmental risk registers have also been developed and will continue to be maintained and updated in the coming year.

## Internal audit

60. An internal audit service is provided to the sportscotland group by PricewaterhouseCoopers (PWC).

61. In accordance with International Standard on Auditing 610 (ISA 610) – Considering the work of internal audit, *“the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment.”* Overall, we concluded that PWC provides a service which we can rely upon. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate and we are grateful to the Internal Audit team at PWC for their assistance during the course of our audit work.

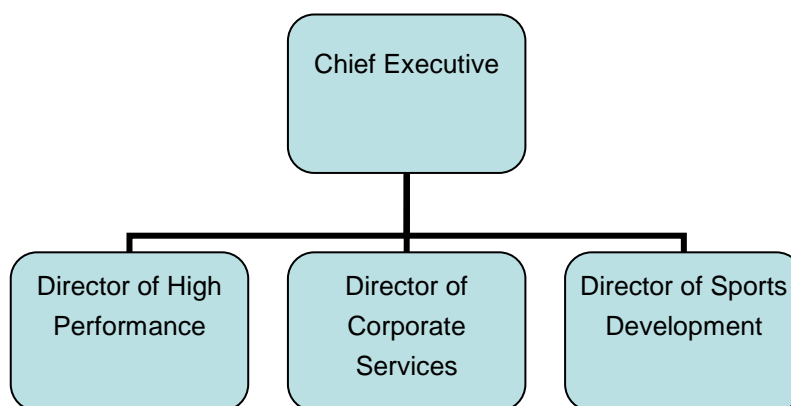
## Prevention and detection of fraud and irregularity

62. Our audit has been planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. As part of our governance work we reviewed the arrangements in place to prevent and detect fraud and irregularity.

63. We did not find any indication of fraud and irregularity and concluded that the Board's internal controls and financial procedures were adequate to prevent and detect material fraud and irregularity.

## **Sportscotland governance structure**

64. Following the merger with the Scottish Institute of Sport and the large turnover in staff following the relocation to Glasgow, sportscotland have taken the opportunity to restructure. Three new directors were appointed and in post by September 2008. Following this, second tier management appointments were made by December 2008. Of the ten second tier management appointments made, five were internal appointments – either through promotion or job matching – with the other five appointments being made externally. The diagram below details the structure of the senior management team.



65. The high performance directorate of sportscotland is focussed on the key aims and objectives of the former Scottish Institute of Sport and is led by the former Chief Executive of the Institute. Following UK success at the Beijing Olympics, the high performance arm of sportscotland is in the process of reviewing areas where funds should be aimed in order to maximise performance at the 2012 Olympics as well as the 2014 Commonwealth Games. High Performance work continues to be undertaken at the former Institute premises in Stirling.

66. Corporate Services covers all aspects of financial management, corporate governance and legal services, strategic planning and research, liaison with the Government, business planning and corporate performance; human resources; communications, marketing and media relations; and office support services including ITC, organisational security and the management of sportscotland premises. Following the merger of sportscotland, the Institute of Sport and Area Institutes of Sport corporate services have been brought together under a new Director to facilitate a corporate and integrated approach to the delivery of all support services and plans are in place to extend these services to support governing bodies of sport, especially those that are based in Caledonia House, sportscotland's previous HQ building in Edinburgh.

67. Sports Development encompasses work undertaken in partnership with schools and communities, coaching and facilities, encouraging grass roots sport. The work of the sports development directorate will be increasingly important in the years leading to 2014 and beyond as plans are

made to ensure that the Commonwealth Games leave a lasting legacy behind them. Following the Concordat signed by all local authorities in 2007, each local authority had to produce a Single Outcome Agreement, which in 2009/10 will be updated to include community partnerships. The Sports Development arm will need to work in conjunction with local authorities to deliver sporting priorities.

## Board Members

68. There have also been changes to the structure of the sportscotland Board during 2008. As part of the integration of the Scottish Institute of Sport, three of its Board members were co-opted onto the sportscotland Board. One of these co-opted members, Louise Martin CBE was appointed as Chair of sportscotland by Scottish Ministers in June 2008. In addition to this, three members were required to resign from the Board having served their four year term. All three members were replaced in December 2008 through appointments from the Scottish Ministers. John Fraser resigned from the Board due to other commitments.

<b>New Members</b>	
Louise Martin CBE (Chair)	Co-opted from SIS, February 2008 Appointed by Scottish Ministers as Chair, June 2008
Sir Bill Gammell	Co-opted from SIS, February 2008
Mike Hay MBE	Co-opted from SIS, February 2008
Professor Grant Jarvie	Appointed by Scottish Ministers, December 2008
Frances Thin	Appointed by Scottish Ministers, December 2008
Mel Young	Appointed by Scottish Ministers, December 2008
<b>Retiring Members</b>	
John Fraser	Resigned, August 2008
Stephen Wright	Resigned by rotation, December 2008
Dr Linda Leighton-Beck	Resigned by rotation, December 2008
Wai-yin Hatton	Resigned by rotation, December 2008

69. Despite the many changes to the Board membership during our review of minutes we were unable to find confirmation of the changes that had occurred, other than the note of membership preceding the minutes. More significantly when changes to the Board necessitated changes to the Audit Committee and Remuneration Committee membership these were not always formally confirmed.

70. Whilst we appreciate that the changes that were made to committee memberships were undertaken to follow best practice, the manner in which it was reported within minutes requires improvement. In future we would suggest that all committee movements are formally confirmed at Board meetings and included in the minutes as such.

**Action Plan Point 4**

## Remuneration Committee

71. 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 set out in the Code. The Code recommends that organisations should form remuneration committees and that these should comprise of not less than three members. During the year, a remuneration committee was in place at sportscotland. In December 2008 following the changes in Board members another three members were appointed to the Remuneration Committee and the membership being increased to four members. The Board minutes of December 2008 note the discussion and decisions made on membership.
72. We noted in our 2007/08 annual report that although a remuneration committee meeting had been held to appraise the performance of the Chief Executive and confirm his pay level for the coming year, this had not been submitted to the Scottish Government for their approval. The Chief Executive received a pay increment in August 2008 which was for 2007. A remuneration committee meeting was held to appraise performance for 2008 in April 2009. We recommend that a formal meeting is set for an appropriate time of year and held on an annual basis so that the Chief Executive is appraised on a regular basis.

***Action Plan Point 5***

**Scottish Sports Council Trust Company**

73. In our 2006/07 and 2007/08 annual reports to members we have highlighted concerns over the charitable status of the Scottish Sports Council Trust Company (SSCTC). These concerns were raised following several years of poor financial performance by the SSCTC, which led to a review of the pricing strategy in place at the National Sports Centres by PWC in 2007. The review noted the advantages that were to be gained from SSCTC remaining as a charity and set an action plan for the development of a pricing strategy and ensuring that the governance arrangements in place met the requirements of the Charity and Trustee Investment (Scotland) Act. The action plan was agreed by sportscotland and SSCTC.
74. At the October 2008 Board meeting a discussion paper on the charitable status of SSCTC, prepared by MacRoberts LLP, sportscotland's legal advisers, was presented. The paper highlighted the contradictions between clauses in the Charity and Trustee Investment (Scotland) Act, the Articles of Association of sportscotland and the Royal Charter which constituted sportscotland. The Charity and Trustee Investment (Scotland) Act states that charities will not meet the charity test if "its constitution expressly permits the Scottish Minister or a Minister of the Crown to direct or otherwise control its activities". This is enforced by the Royal Charter which outlines when the Scottish Ministers can remove a Board member from office.
75. Following recommendations in the discussion paper, it was agreed by the Board that an initial approach would be made to OSCR on an informal basis to ascertain whether they consider that the charity test rules have been breached, and if so what remedial action can be taken by sportscotland and SSCTC. A letter was sent by MacRoberts LLP as legal advisers to

sportscotland in January 2009. We understand that OSCR's concerns now relate mainly to potential conflicts of interest arising.

76. A separate management report issued following the 2008/09 audit of SSCTC notes that the pricing strategy has still not been developed and put in place at the National Centres. Failure to do this may have contributed to the financial shortfall at 31 March 2009 which was reduced by an increase in funding at the year end by sportscotland. The additional funding is represented by the funding debtor of £505,000 shown in the SSCTC accounts.
77. We further note that there is no formalised funding agreement in place between sportscotland and SSCTC. Although SSCTC is part of the sportscotland group, as a charity and a company it must be able to demonstrate its capability of operating as a stand alone entity. Without a formal funding agreement in place, there is the risk that SSCTC might not be seen as a stand alone entity. This would impact on SSCTC should OSCR decide to begin a formal review into SSCTC following the approach made by the Board. We recommend that a formal funding agreement is put in place between the two organisations.

***Action Plan Point 6***

# Looking Forward

## Financial Statements

78. In order to comply with deadlines set by Audit Scotland, the 2008/09 accounts must be restated on an IFRS basis by 28 November 2009 and an audit review of these accounts should be completed by 28 February 2010. Following this, the 2009/10 financial statements will be prepared in accordance with the International Financial Reporting Manual (iFReM). The audit review that we undertook in January 2009, coupled with the review we will undertake in December 2009 should ensure that sportscotland are ready to comply with the iFReM as at 31 March 2010.

## Use of Resources

79. Relocation costs will continue to rise as the full effect of redundancy and early retirement costs come to light as well as increasing the increasing cost of retention payments for those members of staff who stay with the organisation. The 2009/10 financial year will continue to be a difficult period for all staff members as they strive to ensure business continuity and minimise disruption.

80. In prior years we have reported on the continuing decrease in National Lottery funds that are available for distribution. This has been compounded by the Statutory Instrument issued by the UK Government which will transfer over £1billion of funds towards the 2012 Olympics. We will continue to monitor and report on funding levels in the coming years.

## Performance

81. As of midnight on 31 March 2009, the Area Institutes of Sport were merged into sportscotland. The area institutes had previously been hosted by local authorities and universities who reclaimed the costs that were sourced from national lottery funding. This move was required to be made as part of the Ministerial announcement in early 2008. Although the initial requirement was for four hubs to be set up, through discussion with the Scottish Government it has been agreed that it is more appropriate to retain the current 6 area institutes as hubs.

82. Since sportscotland vacated the premises fully at 31 March 2009 plans have been put in place to rent out this space to Scottish Governing Bodies of Sport. Demand has been high for spaces in the building full occupancy is anticipated.

## Governance

83. We will continue to monitor the progress that is made by sportscotland and the Scottish Sports Council Trust Company with the Office of the Scottish Charity Regulator. We will also monitor and review progress made with a formal funding agreement and development of a pricing strategy.

# Action Plan

Our action plan details the key weaknesses and opportunities for improvement that we have identified during this review. To assist the Council 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,

<b>Grade 5</b>	Very high risk exposure – Major concerns requiring Council attention
<b>Grade 4</b>	High risk exposure – Material observations requiring management attention
<b>Grade 3</b>	Moderate risk exposure – Significant observations requiring management attention
<b>Grade 2</b>	Limited risk exposure – Minor observations requiring management attention
<b>Grade 1</b>	Efficiency / housekeeping point

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.

No	Title	Issue Identified	Risk and Recommendation	Management Comments
1	<b>Fixed Asset Register (Para 18)</b>	During our audit we identified errors in the calculation of indexation and depreciation of fixed assets in the Asset-Pro system. In addition we noted that the value of Caledonia House (the most significant asset held) is incorrect.	Whilst we have made adjustments in the financial statements for those errors that we believe to be material there is a risk that assets are not being held at their correct value which may lead to a material misstatement in the financial statements.  <b>Grade 4</b>	Agreed errors due to software problems relating to indexation, agreed adjustments with auditors.  System will be corrected this year to bring into line and the removal of indexation requirements will simplify the process going forward.  Responsible officer: Head of Finance
2	<b>Payroll Costs Split (Para 19)</b>	In order to reflect the nature of staff costs, the total payroll costs are split on a percentage basis based on the time allocation of staff members between the two organisations. Following the restructuring and relocation of sportscotland during 2009 there is a risk that the percentage split being applied is not accurate.	Following the restructuring of the organisation and the creation of new roles we recommend that an exercise is undertaken to ensure that the percentage split that is being applied to payroll costs is an accurate reflection of the work that is being undertaken.  <b>Grade 3</b>	Will be reviewed this year.  Responsible officer: Head of Finance



No	Title	Issue Identified	Risk and Recommendation	Management Comments
3	<b>CETV Disclosures (Para 21)</b>	The remuneration report does not contain Cash Equivalent Transfer Values for senior management. This is a requirement of the Financial Reporting Manual.	We recommend that CETV disclosures are obtained from the relevant pension funds and disclosed in the 2009/10 annual accounts.  <b>Grade 4</b>	Agreed  Responsible officer: Head of Finance
4	<b>Board Minutes (Para 65)</b>	Our review noted that during the many changes in Board structure during the 2008/09 financial year were not always appropriately included in the minutes.	There is a risk that sportscotland is not seen as an open and transparent organisation if membership of the Board and sub-committees is not clearly shown to be discussed at Board meetings. We recommend that in future all committee movements are confirmed at Board meetings and included in the minutes as such.  <b>Grade 3</b>	Agreed  Responsible officer: Head of Finance

No	Title	Issue Identified	Risk and Recommendation	Management Comments
5	<b>Remuneration Committee (Para 67)</b>	Sportscotland has a remuneration committee which should meet on an annual basis to appraise the performance of the Chief Executive and agree his salary scale for the forthcoming year. No meeting took place in during the year until 22 April 2009.	We recommend that an annual timetable of remuneration committee meetings is drawn up and meetings are held on a regular basis.  <b>Grade 3</b>	Agreed  Responsible officer: Chief Executive
6	<b>Scottish Sports Council Trust Company (Para 72)</b>	There is still no formal funding agreement in place between sportscotland and the Scottish Sports Council Trust Company. Neither have there been any changes to the Board structure of the Trust Company, although an approach has been made to the Office of the Scottish Charity Regulator during the year.	There is a risk that without changes to Board structure and no formal funding agreement in place that the Trust Company may lose its charitable status which accords it significant financial benefits.  We recommend that a formal funding agreement is developed and implemented in 2009/10.  <b>Grade 4</b>	Agreed, a funding agreement will be put in place, with agreement from the centre principals by the end of September 2009.  Responsible officer: Head of Finance

No	Title	Issue Identified	Risk and Recommendation	Management Comments
7	<b>Scottish Institute of Sport Pension Valuation</b>	There is a difference in the opening and closing assets of the pension fund. We believe this to be due to the valuation for sportscotland at 31 March 2009 not containing a value for those members of staff who worked at the former Scottish Institute of Sport and were a member of the Strathclyde Pension Fund. This value equated to £19,000 at 31 March 2008. We do not consider the value then or what we estimate it will be at 31 March 2009 to be material.	Pension liabilities are potentially being incorrectly recorded in the financial statements. We recommend that the discrepancy is raised with the actuaries of the Strathclyde Pension Fund as soon as possible and updated in the 2009/10 annual accounts.  <b>Grade 3</b>	Agreed, will be addressed and corrected for the 2009/10 annual accounts  Responsible officer: Head of Finance

No	Title	Issue Identified	Risk and Recommendation	Management Comments
7	<b>Nominal Ledger Input</b>	During our audit we identified a number of journal entries which had not been properly authorised before being input or having adequate back-up information to confirm the purpose of the journal entry.	<p>The nominal ledger is the key source of financial data for the organisation and if information is being processed without being properly authorised there is a risk that erroneous entries are made. We recommend that all staff are reminded of the importance of journal entries having adequate supporting information and being authorised before entry into the nominal ledger.</p> <p><b>Grade 2</b></p>	This was due to the staff changeover, all staff have had further training and understand the importance of following the correct procedure.
8	<b>Cut off testing</b>	During the audit we identified a number of transactions in early April 2009 that had not been posted to the correct accounting period	<p>There is a risk that income and expenditure is not fairly stated in the financial statements with transactions being posted to an incorrect period. We recommend that sportscotland review the processes in place for posting transactions in the first period of a new accounting year.</p> <p><b>Grade 2</b></p>	<p>Again due to the changes in staff and office move, additional checks will be put in place to improve controls.</p> <p>Responsible officer: Head of Finance</p>

No	Title	Issue Identified	Risk and Recommendation	Management Comments
9	<b>Extended Trial Balance</b>	During the audit we identified that a number of accounting transactions had not been properly posted through the extended trial balance in order to produce the financial statements. Further issues were encountered as some transactions were not included in the extended trial balance at all.	There is a risk that if all transactions are not included in the extended trial balance that material amounts are not shown in the financial statements. We recommend that all transactions following 31 March are input into the nominal ledger and are not manually adjusted for.  <b>Grade 3</b>	The problem was caused due to the late adjustments made to incorporate FRS 17 valuations. This has been corrected and the adjustments are now incorporated within the extended trial balance.  Responsible officer: Head of Finance



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