



SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW



**sportscotland group and sportscotland
Lottery Fund**

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

September 2011



sportscotland group and sportscotland Lottery Fund

Annual Report to the Council and the Auditor General for Scotland

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Executive Summary

Financial Statements

Our audit of the 2010/11 financial statements is complete and our audit opinions are unqualified.

The financial statements for the sportscotland group report net operating costs, before Scottish Government funding, of £38.644m (2009/10: £45.460m). The sportscotland lottery fund 2010/11 accounts report a deficit of £1.489m (2009/10: deficit of £1.184m). The Scottish Sports Council Trust Company (the Trust Company) which forms part of the sportscotland group recorded net incoming resources of £253,000 for 2010/11 (2009/10: £268,000).

Use of Resources

sportscotland

The Scottish Government provides financial support to sportscotland through grant-in-aid. Funding letters confirm the level of income that the organisation will receive in the year and sportscotland then draws down funds as and when required. The grant in aid awarded to sportscotland during 2010/11 was £39.827m. In addition to this sportscotland were awarded a £2.3m ring-fenced grant to support elite performance and £321,000 of funding allocated under the cash back from criminal proceeds initiative which has been designated for community programmes. A further £200,000 was received in respect of the 'Fit for Girls' programme which has been shown as other Scottish Government grants within the General Fund.

sportscotland Lottery Fund

A Statutory Instrument was issued by the UK Government during 2008 which allows for the transfer of over £1 billion 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 and the second instalment of £3.514m was made in 2009/10. The third instalment of £3.514m has been shown as expenditure within the 2010/11 financial statements. Overall the sportscotland Lottery Fund will contribute £11m from their funds towards the London 2012 Olympics.

Trust Company

Although the company achieved a net incoming resource of £253,000 in the year, the actual unrestricted operating deficit was £254,000. As a result of the continuing losses being generated the income and expenditure reserve within the Trust Company is steadily declining and if an operating loss similar to prior years is incurred in 2011/12, the income and expenditure reserve will move to a deficit and thus the Trust will be supported solely by its restricted reserves. During the year, a formal funding agreement was approved between the Trust Company and sportscotland. Such a funding agreement is required to ensure an appropriate arms-length relationship exists between sportscotland and the Trust Company as a charity. At the June 2011 sportscotland council meeting, a revised funding agreement for 2011/12 based on the financial results for the year ended 31 March 2011 was approved which confirms that sportscotland will continue to support the Trust Company going forward. It is expected that the Trust Company will generate a small operating surplus for the year ended 31 March 2012.

Performance

The Corporate Plan 2011-15 was approved during 2010/11. 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 required by the Scottish Government.

As part of this process, sportscotland has established key performance indicators (KPIs) which are linked directly to the organisations key priorities, identified within the Corporate Plan. During 2010/11 the Council has made significant progress towards achieving the KPIs within the Corporate Plan. These are reported through the Council's business planning reports which incorporate key performance indicators and business plan actions for the year.

Audit Scotland returns

During the year, Scott-Moncrieff were required to submit the following pro-forma returns to Audit Scotland regarding sportscotland's response to the following national studies issued by Audit Scotland:

- Improving public sector purchasing;
- Energy efficiency follow-up; and
- Role of boards.

We undertook visits to sportscotland premises and discussed the above with senior management. We were satisfied that sportscotland have actioned each of the above reports and reported that this was the case to Audit Scotland via the submission of the pro-formas.

Governance

As part of the audit process we review the governance arrangements in place. From the work performed we can confirm that we found no significant issues to note and that the governance arrangements in place at sportscotland are generally strong.

Looking Forward

sportscotland and sportscotland Lottery share the same objectives and as such the funding received by sportscotland in the form of grant in aid and other grants and the funding received by the Lottery Fund are effectively "pooled" together and used to fund a significant proportion of all grant projects. Each year a paper is approved by the board that provides the rationale for how operating costs and grants for non-specific funded projects are to be split between sportscotland and the sportscotland Lottery Fund. It is important going forward that the rationale behind the split is applied consistently.

Conclusion

This report concludes our audit of the sportscotland group for 2010/11. 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
September 2011

Introduction

1. This report summarises the findings from our 2010/11 audit of the Scottish Sports Council (sportscotland) and the Scottish Sports Council Trust Company which together 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 2011.
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. The Scottish Sports Council Trust Company is 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 2010/11 audit.
5. The main elements of our audit work on the sportscotland group in 2010/11 have been:
 - An audit of the financial statements, including a review of the statement on internal control;
 - Review of governance arrangements, internal controls and financial systems;
 - The completion and submission to Audit Scotland of a pro-forma in relation to the targeted follow-up of the performance audit in relation to the national performance audit study: *“Improving public sector purchasing”*;
 - The completion and submission to Audit Scotland of pro-formas in relation to the follow-up of national performance audit studies applicable to sportscotland published by Audit Scotland in 2010/11.
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.

Financial Statements

Introduction

8. Financial statements are a key way for sportscotland and the sportscotland lottery fund to account for the 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.

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;
 - whether the part of the Remuneration Report to be audited has been properly prepared in accordance with relevant legislation and directions made thereunder by the Scottish Minister;
 - whether the information included in the management commentary within the Annual Report is consistent with the financial statements;
 - the regularity of the expenditure and receipts.
10. We are also required to report if in our opinion:
- adequate accounting records have not been kept; or
 - the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
 - we have not received all the information and explanations we require for our audit; or
 - the Statement on Internal Control does not comply with Scottish Government guidance.

We had nothing to report in respect of these matters.

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 2011 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 2011 deadline.

Financial results

13. The financial statements for the sportscotland group report net operating costs, before Scottish Government funding, of £38.644m (2009/10: £45.460m). The sportscotland Lottery Fund 2010/11 accounts report a deficit of £1.489 m (2009/10: deficit of £1.184 m). The Scottish Sports Council Trust Company (the Trust Company) which forms part of the sportscotland group recorded net incoming resources of £253,000 for 2010/11 (2009/10: £268,000).

In Appendix 4 of this report we show the consolidation of sportscotland's Statement of Comprehensive Income with the SOFA of the Trust Company to give the Statement of Comprehensive Income of the group which is disclosed within the sportscotland group accounts.

Audit adjustments

14. We received draft financial statements in respect of sportscotland group on the commencement of the audit on 9 May 2011 with supporting working papers. The two audit adjustments raised during the course of our audit had a £nil affect on the deficit made in the year. These adjustments are shown within Appendix 2 of this report.
15. We received draft financial statements in respect of the sportscotland Lottery Fund on the commencement of the audit on 16 May 2011 with supporting working papers. The five audit adjustments raised during the course of our audit had a £460K affect on the deficit made in the year. These adjustments are shown within Appendix 3 of this report.

Potential adjustments

16. We have identified a number of adjustments which have not been made within the financial statements. The potential adjustments arising are not considered material to the financial statements, either individually or in aggregate.
17. Table 1 provides a summary of the potential impact that our adjustments would have on the sportscotland group and sportscotland lottery fund results for the year:

Table 1 – Potential adjustments - 2010/11

	sportscotland Group	Lottery Fund
Number of potential adjustments	12	2
Potential net effect of audit adjustments	(£214,342)	(£19,857)
Net operating costs	(£38,644,000)	(£1,489,000)
Net operating costs if adjustments posted	(£38,858,342)	(£1,508,857)

18. The potential adjustments are shown as an appendix to the letters of representation for both the sportscotland group and sportscotland Lottery fund and the Council have confirmed that they do not consider any of the potential adjustments to be material and thus do not wish for them to be adjusted for in the financial statements.

Risks identified at planning stage and how these were mitigated

19. At the planning stage of the audit a number of audit risk areas were identified and were included in the external audit plan presented to the audit committee in January 2011. During the audit, these risks were reviewed to ensure any impact on the financial statements was properly considered.

2010/11 funding – impact of public sector spending cuts

20. **Risk:** The core grant in aid of sportscotland has not been reduced by the Scottish Government. However in prior years, sportscotland received additional funding in excess of £3m for performance projects. This funding is to stop from 1 April 2011 although the Scottish Government still expect sportscotland to meet the performance objectives covered by this specific funding. Sportscotland will therefore have to find over £3m of savings from other areas of the business to cover this funding shortfall. In addition to this, capital funding will be cut by 40% from £7m to £4.2m from 1 April 2011 which will reduce the number of capital projects that sportscotland can support going forward.
21. **Conclusion on risk:** A strategic plan from 2011 - 2015 has been prepared and approved by the Board. The plan has incorporated the budget cuts that have been anticipated and shows the expenditure that Sportscotland expects to incur until 2015. The plan shows that the council expect the grant in aid, other grants and income to meet its expenditure requirements over the next four years.

Accounting for pensions - IAS 19

22. **Risk:** The Chancellor's decision to allow the valuation of public sector pensions to be based on the Consumer's Price Index (CPI) instead of the Retail Price Index (RPI) had a material impact on this year's valuation of the pension scheme and contributed to an overall reduction to the pension liability. There was a risk that this would not be incorporated into the financial statements correctly.

23. Table 2 shows the movement in the pension liability:

Table 2 – Movement in pension deficit

	2011	2010	Variance	Change from RPI to CPI	Actuarial gain
	£000	£000	£000	£000	£000
sportscotland	2,206	8,770	6,564	3,368	3,305
Trust Company	351	1,372	1,021	490	617
Total	2,557	10,142	7,585	3,858	3,922

24. The change from RPI to CPI has significantly reduced the pension liability along with the actuarial gain in the year. The gain due to the change from RPI to CPI is £3,368k for sportscotland and £490k for the Trust Company, a total of £3,858k. The actuarial gain amounts to £3,922k.

25. **Conclusion on risk:** The gain in the pension scheme due to the change from RPI to CPI was recognised as a past service gain and credited to the Statement of Comprehensive Income in accordance with guidance set down in Urgent Issues Task Force (UITF) Abstract 48, since the change is considered to be a change in benefit entitlement. This has been accounted for correctly in the both sets of financial statements.

Reserves in the Trust Company

26. **Risk:** For a number of years the Trust Company has been loss making but has continued in operation with financial support from sportscotland. The Trust Company also has a significant pension liability of £351K as noted above which is recognised in the Statement of Financial Position. This has a significant effect on the financial statements of the Trust in that no free reserves exist from which the Trust can operate. The Trust can only continue in existence by way of continued financial support from sportscotland.

27. For the year ended 31 March 2011, the Trust again generated an operating loss:

Table 3 – Operating loss of Trust Company

	2011	2010
	£'000	£'000
Unrestricted Funds – Income & Expenditure		
Incoming resources	4,803	5,078
Resource expended	(5,057)	(5,384)
Operating loss	(254)	(306)

28. The reserves at the year end including the unrestricted “free reserves” are:

Table 4 – Reserves of Trust Company

Reserves	2011 £'000	2010 £'000
Restricted reserves		
Capital contribution	7,613	7,118
Restricted grant	361	349
	7,974	7,467
Unrestricted reserve		
Income and expenditure account excluding pension reserve	118	776
Pension reserve	(351)	(1,372)
Income and expenditure account including pension reserve	(233)	(596)
Total reserves	7,741	6,871

29. As a result of the continuing losses being generated, the income and expenditure reserve is declining and if an operating loss similar to prior years is incurred in 2011/12, the income and expenditure reserve will be in deficit and thus the Trust will be supported solely by its restricted reserves.

30. **Conclusion on risk:** Sportscotland established a formal funding agreement between sportscotland and the Trust during 2010/11. This was revised for 2011/12 based on the financial results for the Trust Company for the year ended 31 March 2011 and was approved at the June 2011 sportscotland board meeting. Although a small surplus is anticipated to be generated by the Trust Company in 2011/12 the funding agreement provides further assurance that even if an operating deficit is incurred, the company would continue to operate as a going concern.

Caledonia House

31. **Risk:** The percentage of office space that is being rented out to other sporting bodies has increased since 31 March 2010. This alters the proportion of the building that is deemed to be an investment property and the proportion that is deemed to be freehold land and buildings. The movement between fixed asset classifications must be reflected in the financial statements. Also given the potential for depressed commercial property prices there is a risk that the property value is overstated in the financial statements. For the year ended 31 March 2011, an IFRS valuation will have to be performed which should split the value of the property between operational space and rental space. The rental space should be valued using a discounted rent method. Any change in valuation should be reflected in the financial statements.

32. **Conclusion on risk:** An IFRS valuation was performed at 31 March 2011 for Caledonia House incorporating the increased space now rented out and classified as an investment property. The valuation of the building as a whole was £4.925m which was a £75K decrease on the valuation at 1 April 2010:

Table 5 – Valuation of Caledonia House

	Land		Building		Investment Property		Total
Valuation at 1/4/10	£	600,000	£	2,400,000	£	2,000,000	£ 5,000,000
Transfer to Investment Property	-£	500,000	-£	1,900,000	£	2,400,000	£ -
Revaluation	£	-	-£	75,000	£	-	-£ 75,000
Valuation at 31/3/11	£	100,000	£	425,000	£	4,400,000	£ 4,925,000

The above reclassification and revaluation has been correctly reflected in the financial statements.

Templeton on the Green

33. **Risk:** The property at Templeton on the Green is leased. The lease contains a dilapidations clause. An internal surveyors report should be obtained before the accounts are prepared to value the cost of any dilapidations between now and the end of the lease. A provision should be built up over this period to cover the cost of any dilapidation work. sportscotland should recognise a provision within the financial statements for the likely cost of any dilapidation work and this provision should be built up over the term of the lease agreement.
34. **Conclusion on risk:** An employee of sportscotland who is a qualified surveyor performed a review of the dilapidations work that is required to be performed on the cessation of the lease. The cost of the work is estimated to be in the region of £40K. We reviewed this calculation and given the term of the lease and the general condition of the premises we consider this to be a reasonable estimation; however this provision was not incorporated into the financial statements. As it was not material we accepted this although it has been included as a potential adjustment. Going forward we recommend that sportscotland obtain an external surveyors report to value the cost of any dilapidations between now and the end of the lease and recognise the provision within the financial statements.

Action Plan Point 2

Nominal Ledger restructuring

35. **Risk:** A new nominal structure was put in place for all three entities from 1 April 2010. The transfer of opening balances to the new ledger is therefore a potential risk area. The internal auditors will be asked to test the mapping used in sportscotland and the sportscotland National

Lottery Distribution Fund to transfer the balances from the existing ledger accounts to the new codes set up.

36. **Conclusion on risk:** The internal auditors, PWC, prepared a review of the nominal ledger restructuring and issued a report confirming the mapping exercise was a success and that the opening balances were correct. Scott-Moncrieff reviewed this report and placed reliance on the work of the internal auditors. In addition to the work of the internal auditors, we also agreed the opening reserves position was correct.

Additional Issues arising from the audit work

37. In addition to the risks identified at the planning stage, we also identified a number of additional issues during the 2010/11 audit. These are noted below:

Grant commitments with sportscotland Lottery Fund

38. It has been identified that the system in place is not always recording capital commitments accurately. It was also noted that the revenue commitments are recorded on an excel spreadsheet rather than using a computer package as is the case with the capital commitments, which increases the risk of manual errors.
39. We recommend that the system provider be contacted in order to ensure the system error noted during our testing does not occur again. We also recommend that revenue commitments are recorded on the system rather than manually via excel spreadsheets.
40. We also noted that as part of the preparation of the financial statements, each grant commitment is not reviewed to identify the split between the current (< 1 year) and long term (> 1 year) commitment value and instead a formula is applied. This means that the split between current and long-term commitments may not be accurate. Each commitment should be reviewed to identify the payment structure, allowing a more accurate split between current and long term commitments to be identified.
41. The main audit adjustments posted in respect of the Lottery related to late accruals in respect of Awards for All invoices relating to the year end that were not received until after the audit fieldwork in May. The non-inclusion of these adjustments in the financial statements would have meant a material misstatement. It is important that at the financial year end all Awards for All invoices are obtained and then accrued into the financial statements.

Action Plan Point 1

Accrual for holiday pay at year end

42. A number of employees carry forward holidays to the next financial year. A holiday pay accrual was calculated although this was not included in the financial statements.

43. Whilst the holiday pay accrual calculated is not material, this amount should still be recognised in the financial statements and thus a potential adjustment was raised in respect of the accrual.

Action Plan Point 3

Corporate Governance

44. During our audit it was noted that the dates that members joined and left the Council was not always noted in the minutes. Given the important responsibilities that each Council member has, it is important that there is a formal record of when these responsibilities commence or cease.
45. It was also noted that the remuneration of senior post holders is not formally noted in the minutes.
46. We recommend that the dates that members join and leave are explicitly noted in the minutes. Also, the remuneration of senior post holders should be agreed by the remuneration committee prior to the start of the year and this approval should be recorded via a formal minute.

Action Plan Point 4

Purchase orders

47. During our audit of the sportscotland expenditure system we found that purchase orders were not always being completed when orders were being raised. Purchase orders ensure that orders have been raised by an appropriately authorised individual and ensure an audit trail exists to verify who initially raised an order.
48. We recommend that sportscotland develop procedures that ensure that purchase orders are completed by an approved budget holder and that this is filed and matched against the delivery note and purchase invoice prior to the invoice being authorised for payment.

Action Plan Point 5

Statement on Internal Control

49. 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

50. 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.
51. 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

52. This section sets out our main findings from our review of how sportscotland manages its key resources in terms of its financial position.

Financial performance in 2010/11

sportscotland group

53. The sportscotland group has incurred net operating costs of £38.644m in year. This deficit is offset through grant-in-aid income received from the Scottish Government which is recognised through the general fund rather than the Statement of Comprehensive Income. Table 6 below provides a summary of net operating costs compared with funding.

Table 6 – Net operating costs less funding

	2010/11 £'000	Restated 2009/10 £'000
Income	5,672	7,645
Expenditure		
Sports Development and capital grants	(33,239)	(37,815)
Other Expenditure	(11,122)	(15,134)
	(44,361)	(52,949)
Other income / (expenditure)	45	(156)
Net operating costs before Scottish Government funding	(38,644)	(45,460)
Grant-in-Aid	39,827	45,227
Commonwealth games 2014 funding	2,300	2,400
Cash back for Communities funding	321	1,485
Other grants from Scottish Government		
– Fit for Girls	200	200
Total funding	42,648	49,312
Funding less operating costs	4,004	3,852

Grant-in-aid income

54. The Scottish Government provides financial support to sportscotland through grant-in-aid. Funding letters confirm the level of income that the organisation will receive in the year and sportscotland then drawdown funds as and when required. The grant-in-aid awarded to sportscotland during 2010/11 was £39.827m. In addition to this sportscotland were awarded a £2.3m ring-fenced grant to support elite performance and £321,000 of funding allocated under the cash back from criminal proceeds initiative which has been designated for community programmes. A further £200,000 was received in respect of the 'Fit for Girls' programme which has been shown as other Scottish Government grants within the General Fund.
55. The grant-in-aid has decreased by £5.4m for 2010/11 compared with 2009/10. One of the main reasons for this was the early drawdown in 2009/10 of £1.2m of 2010/11 funding. The 2009/10 allocation also included funds to cover relocation costs and to fund the activities of the former Scottish Institute of Sport.
56. During 2010/11 sportscotland received £1.435m (2009/10: £3.355m) in income from the Big Lottery Fund. This income was used to fund the Scottish Football Association Youth Action Plan.

Other expenditure

57. Staff costs have fallen by £2.579m from £7.867m in 2009/10 to £5.718m in 2010/11. The actual payroll cost increased from £8.244m to £8.917m due to an increase in the average number of staff from 259 to 271 and an increase in wages. This increase of £673K was offset by the incorporation of the change in how the IAS 19 valuation of the pension scheme is calculated as a result of using the Consumer's Price Index (CPI) instead of the Retail Price Index (RPI). As noted in table 2, the reduction in the pension deficit from this change was £3.858m. This reduction was included in the overall decrease in the pension deficit credited to the Statement of Comprehensive Income of £3.663m (2009/10: (£377k)). The net effect of this was to reduce total staff costs by £2.579m.
58. Other operating charges also fell in the year from £6.713m to £5.718m, a fall of £995k. This was mainly due to a change in the allocation of overheads to sportscotland Lottery fund. The decrease in other operating charges in sportscotland contrasts with a corresponding increase in the operating costs of the Lottery fund as noted below.

Relocation Expenditure

59. The net operating costs before Scottish Government funding for the last two years includes redundancy, early retirement and other relocation costs relating to the relocation to Glasgow. This amounts to £116,000 in 2010/11 and £554,000 in 2009/10. At 31 March 2011 a provision of £165,000 (2009/10: £352,000) was included within the financial statements in respect of costs still to be paid. The Council have been kept apprised of the financial situation at regular intervals during the year. Table 7 summarises the movement within the year:

Table 7 – Movement in relocation provision

	sportscotland group £'000
Provision at 31 March 2010	(352)
Amounts provided for during 2010/11	(116)
Amounts released during 2010/11	303
Provision Remaining at 31 March 2011	(165)

60. The provision remaining is to cover the final retention bonus payment due to those staff who did not opt for redundancy at the time of the relocation, which will be paid in 2011/12, and the excess fares allowance which runs to 31 March 2014.

sportscotland lottery fund

61. Sportscotland lottery fund incurred a deficit in year, demonstrated in the table below:

Table 8 – Net operating costs

	2010/11 £'000	Restated 2009/10 £'000
National Lottery Fund Proceeds	21,077	20,206
Other Income	104	77
	21,181	20,283
Grant Expenditure	(18,743)	(18,609)
Other Expenditure	(3,925)	(2,857)
	(22,668)	(21,466)
Corporation Tax	(2)	(1)
(Decrease) in fund	(1,489)	(1,184)

62. Grant expenditure has increased on the level that was recorded last year. This is mainly due to the continued 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 improvement. The contribution to the Olympic Lottery Distribution Fund made during the year was £3.514m, the same as in the prior year.

63. Other expenditure has increased in the year by £1.068m as there has been a change in the allocation of overhead costs recharged to sportscotland Lottery Fund by sportscotland in the year as noted above.

National Lottery Distribution Fund Movements

64. 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 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.

65. 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 transfer made by sportscotland Lottery Fund of £3.514m in 2010/11 has been shown within the grant paid expenditure in the financial statements of the sportscotland Lottery Fund. The payments are shown as a separate line in note 3.5.2 to the financial statements of the sportscotland Lottery Fund.

Performance

Introduction

66. To ensure effective performance the Council 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

67. 2009-2011 was 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.

68. During 2010/11 a new corporate plan 2011 – 2015 was prepared and approved by the Board. The plan incorporates the significant changes to the organisation and builds on the success of the 2009/11 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, and the national strategy for physical activity – Let's Make Scotland More Active.

69. The 2009/11 plan identifies the organisations key priorities as:

- Schools and community sport;
- Performance development;
- High Performance sport;
- Coaching and volunteering;
- Quality facilities;
- Stronger Partners; and
- Stronger sportscotland.

70. Each priority has a set of outcomes and activities which form the basis of the corporate plan reporting. This is reported to the **sportscotland** Council regularly. The corporate plan is underpinned by an annual business plan which incorporate the key performance indicators for the financial year as well as an action plan.

Performance monitoring

71. The Council have reported that there has been good progress over the course of the year with only 12 actions out of a total of 30 which were planned to be finalised in 2010/11 still outstanding at the year end¹. In eight of these areas progress was at 90% or above at the year end.
72. The business plan includes key performance indicators linked to the key priorities identified within the corporate plan. The table below provides a summary of performance against the KPI's made by the Council during the year.

Table 9 – sportscotland key performance indicators

Key Priority	Number of KPIs achieved	Number of KPIs not achieved
Schools and community sport	4	1
Performance development	1	0
High Performance sport	1	0
Coaching and volunteering	1	0
Quality facilities	2	0
Stronger Partners	3	0
Stronger sportscotland	3	1
Total	15	2

73. Table 9 indicates that the Council has made significant progress during 2010/11 towards its key priorities. A final performance report was presented to the Council on 30 June 2011.

¹ Source: Strategy/Policy Report for 30 June 2011: Corporate Plan and Business Plan

Audit Scotland returns

Targeted follow-up of performance audit

74. In July 2009 the Scottish Government introduced a new assessment tool - the procurement capability assessment (PCA) - to monitor how far public bodies adopt good purchasing practice and as a basis for sharing best practice and promoting continuous improvement across the public sector. The estimated Scottish public spending on goods and services is about £9 billion a year. The current economic climate means that more than ever, the public sector needs to find cash savings without cutting services or quality.
75. As well as savings, good purchasing practice is important to ensure that resources are used effectively, that spending is well directed and controlled and that overall public bodies secure value for money.
76. As external auditors, Audit Scotland, required Scott-Moncrieff to complete a pro forma template in respect of sportscotland's response to the national study, *Improving public sector purchasing*. The pro forma addresses the following points:
- Is there a commitment to achieving improvements in purchasing practice based on the PCA process, including clear direction and support from the top of the organisation?
 - Is there a clear system of delegation and authority for purchasing, which is audited?
 - Is there a high-quality purchasing strategy - supported by good information - to secure savings and other benefits from better purchasing?
77. Scott-Moncrieff visited sportscotland on 6 April 2011 to perform this review. In May 2011 we submitted the completed pro-forma to Audit Scotland. Our conclusion after discussions with senior management and a review of relevant documents was that the above three judgements have been met with regards to the procurement process within sportscotland. It is clear that sportscotland are taking active measures to ensure good purchasing practice is in place. Nothing was noted during the performance of the external audit fieldwork to change our opinion.

National study reports

78. Audit Scotland in 2010/11 has prepared further National Studies in a variety of areas. Audit Scotland expect central government bodies to review the National Studies published between April 2010 and March 2011 relevant to them and action them accordingly. As external auditors, we are required to complete a pro forma template for each applicable National Study which will address the following points:
- How did the body respond to the report following its publication?
 - How is the body responding to the recommendations in the report?
 - Has the body carried out a self-assessment using the checklist for this in the report?

- Has the body produced an action plan as a result of the self-assessment?
- A summary of the body's overall response and the impact of the report on it.

79. During our 2010/11 audit, Audit Scotland asked us to review the action the sportscotland group has taken in relation to the following national studies:

- Energy efficiency follow-up; and
- Role of boards.

80. We visited sportscotland's premises on 1 July 2011 to discuss with senior management how sportscotland have actioned the above reports. Both reports were considered by the board and sportscotland have taken specific actions in response to the recommendations presented in the National Study reports. Where applicable a self assessment was performed and an action plan was devised in response to this. Overall, the reports have assisted sportscotland in seeking constructive improvements to aspects of its work.

81. We submitted our conclusions in the form of the pro-formas to Audit Scotland on 29 July 2011.

Governance

82. 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

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

Risk management

84. Risk management is important to the establishment and regular review of systems of internal control. Risk management arrangements at sportscotland are relatively well developed. Risk management arrangements are defined within the organisation's risk management policy. The Senior Management Team (SMT) oversees risk management within the organisation and maintain a risk register.

85. In June 2010 the risk management policy was revised by the SMT. This was not a root and branch revision of the existing policy and instead was an update to develop a more corporate approach to managing risk within the organisation following the organisational restructuring process.

86. The risk management process allows risks to be systematically identified, assessed and addressed. Risk registers have been developed on a local area level which are managed by Functional Management Teams (FMT). Individual FMT risk registers are live documents which feed directly into the overall corporate risk register. An organisation wide risk register is populated by data representing all known risks. This to be formally reviewed 6 monthly by the SMT and FMT and in turn ratified by the Audit Committee and subsequently Council Members.

Internal audit

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

88. 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

89. 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.
90. We did not find any indication of fraud and irregularity and concluded that the Council's internal controls and financial procedures were adequate to prevent and detect material fraud and irregularity.

Looking Forward

Use of Resources

91. SportsScotland and sportsScotland Lottery share the same objectives and as such the funding received by sportsScotland in the form of grant in aid and other grants and the Lottery funding received by the Lottery Fund are effectively “pooled” together and used together to fund grant projects although certain projects will be funded exclusively by sportsScotland or the Lottery Fund.
92. Overhead and staff costs should continue to be allocated in an appropriate manner to ensure that there is a fair and reasonable way in which operating costs are allocated to sportsScotland and sportsScotland Lottery. As noted above there was an increased recharge of overheads to the Lottery fund this year in comparison to last year.
93. Each year a paper is approved by the board that provides the rationale of how operating costs and grants for non-specific funded projects are to be split between sportsScotland and the sportsScotland Lottery Fund. It is important going forward that the rationale behind the split is applied consistently. Although there will be events in the future that may change the actual monetary allocation of grant expenditure, overheads and staff costs, the rationale for the allocation of these operating and staff costs should be as consistent each year.

Performance

94. The Council's Corporate Plan identifies key priorities for the organisation over the next four years. Linked to these are key performance indicators which the Council can utilise to monitor progress towards these priorities. SportsScotland has reported significant progress towards its key priorities identified within the Corporate Plan.

Appendix 1: 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:

Grade 5	Very high risk exposure – Major concerns requiring Council attention
Grade 4	High risk exposure – Material observations requiring management attention
Grade 3	Moderate risk exposure – Significant observations requiring management attention
Grade 2	Limited risk exposure – Minor observations requiring management attention
Grade 1	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.

Appendix 1: Action Plan

<p>1</p>	<p>Grant commitments within sportscotland Lottery Fund</p>	<p>It has been identified that the commitment system in place is not always recording capital commitments accurately. It was also noted that the revenue commitments are recorded on an excel spreadsheet rather than using a computer package as is the case with the capital commitments, which increases the risk of manual errors.</p> <p>Further to this it was also noted that as part of the preparation of the financial statements that each commitment is not reviewed to identify the split between the current (< 1 year) and long term (> 1 year) commitment value and instead a formula is applied. This means that the split between current and long-term commitments may not be accurate.</p> <p>The main audit adjustments posted in respect of the Lottery related to late accruals in respect of Awards for All invoices relating to the year end that were not received until after the audit fieldwork in May. If these were not included via a late audit adjustment the financial statements would have been materially misstated.</p>	<p>We recommend that the system provider be contacted in order to ensure the system error noted during testing does not occur again. We also recommend that revenue commitments are recorded on the system rather than manually via excel spreadsheets.</p> <p>Each commitment should be reviewed to identify the payment structure, allowing a more accurate split between current and long term commitments to be identified.</p> <p>It is important that at the financial year end that all Awards for All invoices are obtained and then accrued into the financial statements.</p> <p>Grade 3</p>	<p>The grant commitment system is currently under review and we would expect to address these weaknesses going forward.</p> <p>The “awards for all” issue has highlighted a communication issue between departments which is being addressed.</p> <p>The initial problem of the Lottery Fund issuing invoices to another unrelated organisation was out with our control.</p>
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Appendix 1: Action Plan

2	Provisions for dilapidations	Sportsotland has not recognised a provision within the financial statements based on the likely cost of any dilapidation work for the lease at Templeton on the Green.	<p>Whilst we do not envisage that the provision will be material given the term of the lease, the general condition of the premises and the internal estimate.</p> <p>Going forward we recommend that sportsotland obtain an external surveyors report to value the cost of any dilapidations between now and the end of the lease and recognise the provision within the financial statements.</p> <p>Grade 2</p>	<p>We were given an estimate by an in-house surveyor, who estimated the value of dilapidation work to be not more than £40k.</p> <p>It was felt that this was not material enough to be included in the accounts, but this will be reviewed annually.</p>
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Appendix 1: Action Plan

3	Holiday pay accrual	SportsScotland has not recognised an accrual within the financial statements for the accrued holiday pay at the year end.	Whilst the holiday pay accrual calculated is not material, this amount should still be recognised in the financial statements. Grade 2	This accrual has consistently not been recognised as it is not material, and with the harmonisation of holiday years with the accounting year across the organisation the values going forward will be even less significant.
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Appendix 1: Action Plan

4	Corporate Governance	<p>During our audit it was noted that the dates that members joined and left the Council was not always noted in the minutes. Given the important responsibilities that each Council member has, it is important that there is a formal record of when these responsibilities cease on resignation or become applicable on appointment.</p> <p>It was also noted that the remuneration of senior post holders is not formally noted in the minutes.</p>	<p>We recommend that the dates that members join and leave are explicitly noted in the minutes. Also, the remuneration of senior post holders should be agreed by the remuneration committee prior to the start of the year and this approval should be recorded via a formal minute.</p> <p>Grade 2</p>	<p>Agreed this omission is now being addressed and all future changes in composition of the Council will be formally noted in the minutes.</p>
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Appendix 1: Action Plan

5	Purchase orders	During our audit of the sportscotland expenditure system we found that purchase orders were not always being completed when orders were being raised. Purchase orders ensure that orders have been raised by an appropriately authorised individual and ensure an audit trail exists to verify who initially raised an order.	We recommend that sportscotland develop procedures that ensure that purchase orders are completed by an approved budget holder and that this is filed and matched against the delivery note and purchase invoice prior to the invoice being authorised for payment Grade 2	This weakness has already been recognised and new systems and procedures have been introduced during the year with training given to budget holders on the new procedures.
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Appendix 2: Operating cost reconciliation – sportscotland Group

Net operating cost before Scottish Government Funding per draft 1 accounts					£ 38,644,000
	<u>Statement of Comprehensive Income</u>		<u>Statement of Financial Position</u>		
	<u>Dr</u>	<u>Cr</u>	<u>Dr</u>	<u>Cr</u>	<u>Effect on net funds</u>
1	Dr General Fund		£ 1,123,000		£ -
	Cr Revaluation reserve			£ 1,123,000	£ -
	Being prior year adjustment to reverse last year's prior year adjustment to transfer from the revaluation reserve to the general fund an amount in respect of the investment property transfer				
2	Dr Govt grant reserve		£ 20,000		£ -
	Cr General Fund			£ 20,000	£ -
	Being release from government grant reserve				
			Net effect of adjustments		£ -
Net operating cost before Scottish Government Funding per final accounts					£ 38,644,000

Appendix 3: Decrease in Fund reconciliation – sportscotland Lottery Fund

Decrease in fund per draft 1 accounts					-£ 1,029,000
	<u>Statement of Comprehensive Income</u>		<u>Statement of Financial Position</u>		Effect on net funds
	Dr	Cr	Dr	Cr	
1 Dr Audit fee	£ 13,600				-£ 13,600
Cr Accruals				£ 13,600	£ -
Being incorporation of audit fee accrual					
2 Dr Commitments < 1 year			£ 12,945		£ -
Dr Commitments > 1 year			£ 4,315		£ -
Cr Expenditure		£ 17,260			£ 17,260
Being removal of commitment double counted due to IT error					
3 Dr Grants	£ 390,000				-£ 390,000
Cr Commitments < 1 year				£ 390,000	£ -
Being additional accrual (1) identified for Awards for All					
4 Dr Grants	£ 52,600				-£ 52,600
Cr Commitments < 1 year				£ 52,600	£ -
Being additional accrual (2) identified for Awards for All					
5 Dr Income	£ 21,454				-£ 21,454
Cr Investments - Lottery				£ 21,454	£ -
Being correction of Lottery fund value so it agrees to interim valuation					
			Rounding difference		394
					-£ 460,000
Decrease in fund per final accounts					-£ 1,489,000

Appendix 4: Group reconciliation – Statement of Comprehensive Income

Statement of Comprehensive Income	Sportscotland		Sportscotland Trust Company		Total before consolidation adjustments	Consolidation adjustments		Total after consolidation
	£000's	£000's	£000's	£000's	£000's	£000's Dr	£000's Cr	£000's
Revenue								
Big Lottery	-£ 1,435	£ -	-£ -	£ 1,435	-£ 1,435			-£ 1,435
Donations from sportscotland to Trust	£ -	-£ 1,435	£ -	-£ 1,435	£ 1,435	£ 1,435		£ -
Gift adi from SS	£ -	£ -	£ -	£ -	-			£ -
sports trust trading income	£ -	-£ 3,324	£ -	-£ 3,324	£ 3,324			-£ 3,324
other operating income	-£ 876	-£ 37	-£ -	£ 913	£ 913			-£ 913
Total Income	-£ 2,311	-£ 4,796	-£ -	£ 7,107				-£ 5,672
Expenditure								
Donations from sportscotland to Trust	£ 2,298	£ -	£ -	£ 2,298		-£ 2,298		£ -
sportsdevelopment and capital grants	£ 33,239	£ -	£ -	£ 33,239				£ 33,239
staff costs	£ 2,992	£ 2,296	£ -	£ 5,288				£ 5,288
other operating charges (inc relocation)	£ 2,705	£ 3,129	£ -	£ 5,834				£ 5,834
Total expenditure	£ 41,234	£ 5,425	£ -	£ 46,659				£ 44,361
Operating deficit	£ 38,923	£ 629	£ -	£ 39,552				£ 38,689
Interest receivable	-£ 10	-£ 1	-£ -	£ 11				-£ 11
IAS 19 (pension finance cost)	-£ 28	-£ 6	-£ -	£ 34				-£ 34
Corporation tax	£ -	£ -	£ -					
Net operating cost before Scottish Government funding	£ 38,885	£ 622	£ -	£ 39,507	£ 1,435	-£ 2,298		£ 38,644

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