



Grant Thornton

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Key Issues Memorandum

sportscotland Group and the sportscotland Lottery Fund

For the year ended 31 March 2012

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To the Audit Committee of the sportscotland Group and Lottery Fund and the Auditor General for Scotland.

The purpose of this memorandum is to highlight the key issues affecting the results of sportscotland Group and the preparation of the Group's financial statements for the year ended 31 March 2012. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out in 'The small print' (Section 10).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP

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1 Executive summary

Financial Reporting Issues	
Audit Opinion	<ul style="list-style-type: none"> We intend to give an unqualified opinion on the financial statements of the sportsScotland group and on the financial statements of the sportsScotland Lottery Fund and on the regularity of transactions undertaken for the 2011-12 the financial year in relation to both bodies.
Financial Statements	<ul style="list-style-type: none"> The draft financial statements and supporting working papers were of a good standard. In relation to the group accounts, adjustments to the draft accounts following our sportsScotland Trust audit resulted in a reduction of £229k in relation to deferred income and a corresponding prior year adjustment of £218k being carried forward into the Group accounts.
Financial Performance	<ul style="list-style-type: none"> The group has performed well against the 2011-2012 budget, responding effectively to reduced budgeted income.

Governance	
Audit Committee	<ul style="list-style-type: none"> The Audit Committee operates in accordance with good practice and provides effective oversight.
Internal Audit	<ul style="list-style-type: none"> We have concluded that the Internal Audit arrangements were compliant with the government internal audit standards.
Annual Governance Statement	<ul style="list-style-type: none"> An Annual Governance Statement has been produced for the first time in 2011-12. There is scope to strengthen the Annual Governance Statement going forward by incorporating best practice.
Sustainability Reporting	<ul style="list-style-type: none"> sportsScotland has produced a sustainability report. There are some areas, relating to shared buildings, where information has not been available due to the limits of data collection.

2 Key audit issues

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and we provide details of additional matters that arose during the course of our work.

2.1 Status of audit

Our audit is substantially complete and we discussed all matters arising with the Head of Finance on 13 June 2012. There are no areas outstanding at the time of reporting.

2.2 Matters identified at the planning stage

In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum dated 23 January 2012.

Our responses to the matters identified at the planning stage are detailed at 2.6.

2.3 Matters identified during the course of the audit in relation to fraud

Our audit is not designed to identify all frauds or fraud risks. However, during the course of our audit we did not identify any indication of fraudulent activity.

2.4 Matters identified during the course of the audit in relation to related parties

It is an ISA requirement that we communicate all significant audit issues regarding related parties to those charged with governance, for example of non-disclosure of transactions and balances; of unauthorised transactions that may be indicative of fraud; difficulties in identifying the ultimate controlling party and non-compliance with laws and regulations with regard to related parties.

In the course of our audit we found no issues in relation to related parties.

2.5 Matters identified during the course of the audit in relation to compliance with relevant laws and regulations

During the course of the audit we did not identify any instances of non-compliance with relevant laws and regulations.

2.6 Matters identified at the planning stage

Issue	Auditor commentary
<p>Financial position</p> <p>The Scottish public sector continues to face a period of sustained financial austerity with the significant cuts in public expenditure commencing from 2012-13.</p> <p>The Cabinet Secretary for Finance and Sustainable Growth announced the Scottish Government's spending plans for the 2012-13 financial year in September 2011.</p> <p>sportscotland's revenue budget is remains at similar levels to prior years while the capital budget will be reduced, however an increase in future lottery funding is expected to partially offset this.</p>	<p>We have reviewed the financial management and budgetary control systems as part of our interim audit. In particular:</p> <ul style="list-style-type: none"> • sportscotland's financial strategy • financial monitoring procedures for the organisation • processes in place for monitoring the agreed budget and reporting financial information to budget holders, senior management and the Board. <p>Budget projections have been revised to account for the anticipated change in future cash flows. The budget monitoring process in place was reviewed as part of the interim audit work and while the procedures should provide effective monitoring, it is vital any future developments in funding are filtered into the projections as soon as they occur.</p>
<p>Governance arrangements</p> <p>sportscotland is a high profile organisation, with a significant role in the development of sport in Scotland. The organisation must have sufficient governance procedures and policies in place to ensure it meets the requirements of its key stakeholders.</p> <p>Specifically, there is a risk that sportscotland is unable to demonstrate the rationale behind funding decisions made if an appropriate framework is not in place which details the policies and procedures that should be followed when granting funds.</p>	<p>We have reviewed the key governance arrangements in the body. In particular:</p> <ul style="list-style-type: none"> • risk management arrangement • audit committee arrangements • provision of internal audit services • committee structures • framework and criteria for funding decisions. <p>There are clear and effective high level governance arrangements in place in the organisation.</p> <p>As part of our final accounts work we reviewed grants awarded to Governing Bodies and Local Authorities. The rationale for each of the funding decisions was documented and had been approved through the application and panel review process.</p>

<p>Accounting policies</p> <p>It is important that sportscotland's accounting policies are up-to-date with regards to current accounting standards, and are appropriate for the transactions undertaken by the organisation.</p> <p>There is a risk that accounting policies are not reviewed and updated, or formally approved by those charged with governance on a regular basis.</p>	<p>We have discussed and agreed on changes to accounting policies including:</p> <ul style="list-style-type: none"> • inclusion of the holiday pay accrual within the accounts • treatment of government grants • recognition of deferred income. <p>The accounting policies were reviewed by the audit team as part of the final accounts audit and were found to be in accordance with the relevant standards and consistent with the prior year. Section 4 details review of individual key accounting policies.</p>
<p>Annual Governance Statement</p> <p>Exposure Draft ED/2011/04 Governance Statement proposes replacing the Statement of Internal Control with a governance statement which will integrate reporting of governance, risk management and control.</p> <p>The Annual Governance Statement requires more disclosure than the Statement of Internal Control as it should reflect how the organisation conducts its business internally and in dealing with others.</p>	<p>The Annual Governance Statement has been prepared for the first time in 2011-12. Guidance is given in the Scottish Public Finance Manual (SPFM) over the content of the Statement, which is seen as best practice. The Statement could be further developed going forward by incorporating best practice.</p>
<p>Funding split</p> <p>The main financial transaction in the year at sportscotland is the funding of sports projects. The funding of sports projects are either via grant in aid or lottery funding with some projects funded through a mixture of both.</p> <p>Consequently there is a risk that grant payment amounts are not coded correctly to the right account.</p>	<p>We have gained assurance that grants are appropriately charged to the correct fund for funding purposes.</p> <p>We tested a number of grant payments and found that funding had been appropriately split between lottery funding and sportscotland grant funding.</p>

<p>Treatment of Government Grants</p> <p>Government Grants used to fund assets were previously taken to the government grant reserve and released to the statement of comprehensive net expenditure over the life of the relevant asset.</p> <p>An interpretation of IAS 20 has been added so that grants should be recognised immediately, unless there is a condition outstanding which could lead to a repayment of the grant. Grants with no conditions outstanding should be recognised as income, but grants from a sponsoring department to a non-departmental public body (NDPB) should be credited to general reserves. There should therefore no longer be a government grant reserve.</p>	<p>The Government Grant reserve has correctly been removed from the sportscotland Group Balance Sheet, with grant amounts without conditions now being recognised as income.</p> <p>A prior year adjustment has also been made to comparative figures.</p>
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3 Review of financial performance

3.1 Commentary

sportsotland income is under budget, primarily due to community cashback income being £1 million below budget. Facilities expenditure is £1,253k lower than budget and salaries are £987k lower than budget. Additional funding was required to support the Trust.

The results of the comparison of staff costs to the prior year have been adversely impacted by the IAS 19 2010-11 adjustment of £3.629 million. Grant expenditure has reduced by £5 million from the previous year. This is in line with the 10% reduction in grant in aid funding from the Scottish Government.

The Trust has made savings against budget in salaries (£34k), establishment expenses (£60k) and training (£34k). The Trust expenditure figure in the accounts includes non-cash items such as depreciation and other year end adjustments.

Looking forward, the 2012-13 income for sportsotland is forecast to be £6 million. This represents a significant increase in additional income sources and income levels will need to be closely monitored to ensure they are in line with projections, any changes to the income forecast will need to be considered for the impact on budgeted expenditure.

3.2 Performance against budget

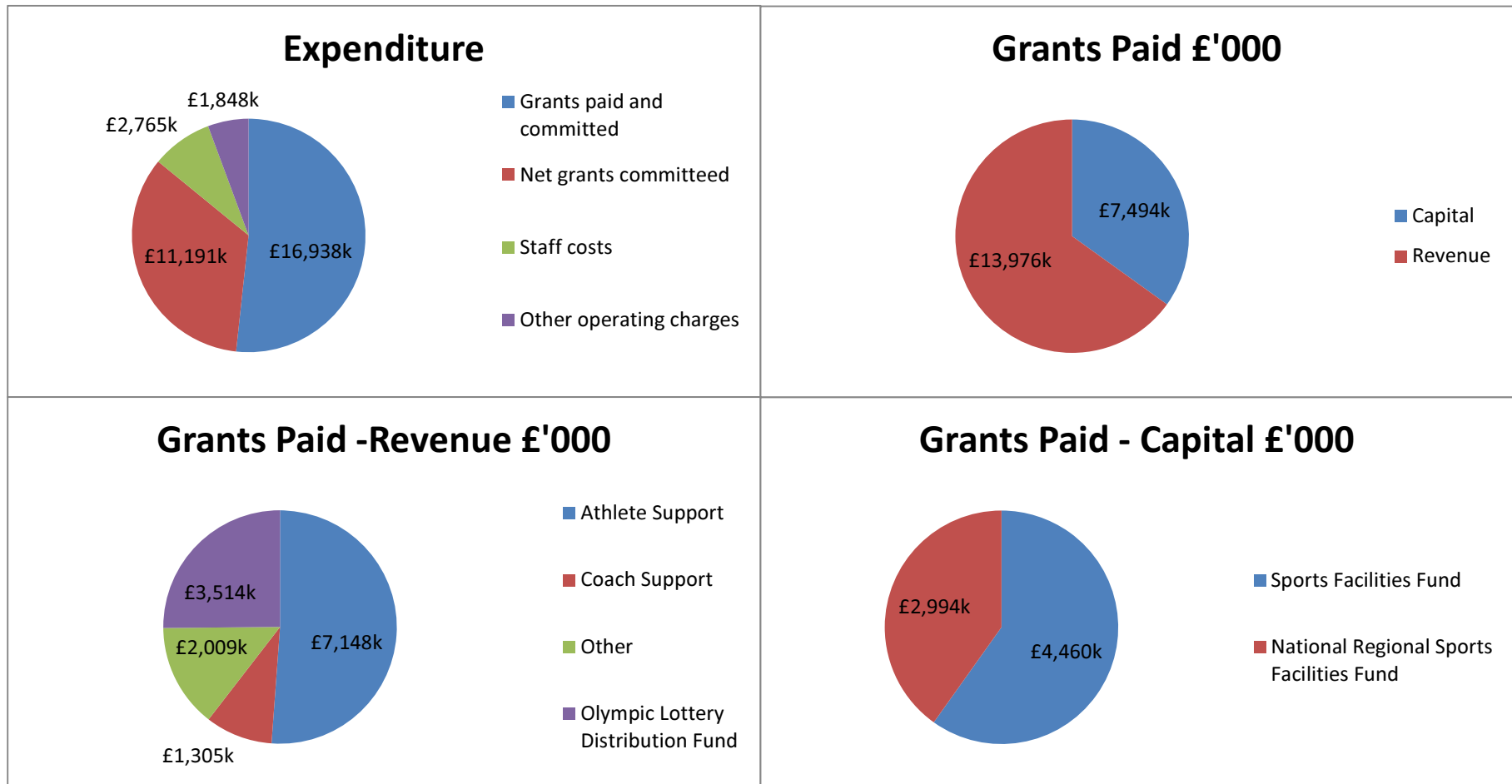
	Original Budget £000's	Actual £000's	Variance £000's
Trust Company - Income	3,463	3,416	(47)
Trust Company – Expenditure (management accounts)	5,460	5,320	(140)
sportsotland - Income	2,295	1,576	(719)
sportsotland - Expenditure	38,248	37,530	(718)
Subvention	1,998	2,357	359

3.3 Net operating cost before Scottish Government funding

	sportsScotland group 2011-12	sportsScotland group 2010-11
<u>Income</u>		
Income from Activities	3,416	3,324
Other Operating Income	1,567	949
Big Lottery Fund	0	1,435
	4,983	5,708
<u>Expenditure</u>		
Sports development and capital grants	28,006	33,239
Staff costs	9,360	5,288
Other operating charges	6,008	5,742
Relocation costs	111	116
	(43,485)	(44,385)
Interest receivable/IAS 19 Interest	43	45
Net Operating Cost before SG Funding	(38,453)	(38,632)

3.4 sportscotland Lottery Fund - Expenditure Analysis

The Lottery Fund's purpose is to distribute grants to develop and support sport in Scotland. £28m of grant was paid or committed during 2011-12 using £4,500k of resource. Revenue payments account for 65% of grant expenditure. With athlete support being the largest category of grant paid at £7,148k.



4 Financial reporting matters

4.1 Commentary on key judgements and estimates

We have reviewed the financial statements and present our view of the key accounting policies below, bringing to your attention in particular any significant judgements and estimates.

4.2 Disclosure omissions

There were a number of disclosure omissions noted as part of our review where the Lottery Fund did not meet the additional disclosure requirements as agreed by the Scottish Ministers and sportsScotland in respect of its National Lottery Fund distribution activities. These omissions are detailed in table 5.5.

Accounting area	Summary of policy	Comment
Grants	<ul style="list-style-type: none"> Grants paid out by sportsScotland are charged to the Statement of Comprehensive Income on the basis of actual payments made in the year with the exception of awards made under the Sportsmatch programme which are included in the accounts on an accruals basis. 	<ul style="list-style-type: none"> As part of our final accounts audit we reviewed the recognition policy and its implementation and found both to be satisfactory.
Depreciation	<ul style="list-style-type: none"> Depreciation is charged on a straight line basis, based on the useful economic lives of the asset. Buildings are depreciated over 50 years, fixtures and fittings over 5 years and equipment and motor vehicles both over 4 years. 	<ul style="list-style-type: none"> The depreciation methodology is deemed appropriate and the useful economic lives reasonable and in line with the industry standard.
Pension costs	<ul style="list-style-type: none"> Employees have the option of joining the Scottish Teachers Superannuation Scheme (STSS) or the Strathclyde Pension Fund (SPF), both of which are defined benefit schemes. The STSS is accounted for as a defined contribution scheme as sportsScotland is unable to identify its share of the underlying assets. 	<ul style="list-style-type: none"> The disclosure is in line with the requirements of IAS 19 which require disclosure explaining that although the body is part of a defined benefit scheme it has been accounted for as a defined contribution scheme due to the inability to identify its share of the defined benefit obligation.

5 Audit adjustments

5.1 Misstatements

We are required to communicate all uncorrected misstatements to you, other than those considered to be clearly trivial. We have requested that management correct these misstatements and have included (where applicable) the reasons given by them as to why the misstatements remain uncorrected.

5.2 Impact of misstatements

All adjusted misstatements are set out in detail in table 5.3 below. The misstatements identified relate to those identified as part of the sportsScotland Trust audit which are consolidated into the sportsScotland Group accounts. As a consequence of the adjustments relating to the Trust, prior year figures were restated as appropriate.

No additional misstatements in relation to the Group were identified.

There are no unadjusted misstatements in relation to the Group accounts.

5.3 Sportsotland Group adjusted misstatements

Account Area	Original	Adjustment	Revised	Reason For Adjustment
Remuneration Report - salary	Some small discrepancies between salary information and the disclosure were identified and adjusted.			To correctly present the remuneration details disclosed.
Remuneration Report pension details	Pension figures had not been updated from the previous year's figures.			To correctly present the remuneration details disclosed.
Note 9 Trade and other receivables – trade debtors 2011/12	342	(229)	113	£20k of income relating to 2011-12 not yet received had incorrectly been treated as a reduction to deferred income £209k included within deferred income, and with a corresponding entry in debtors, was the balance of course fees not yet paid. Due to the current process of raising an invoice for the full fee when a booking is made, the debtors and accrued income accounts are overstated.
Note 10 Trade and other payables - accruals 2011/12	1195	(209)	986	
Note 9 Trade and other receivables – trade debtors 2010/11	489	(218)	271	IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires that where errors in prior periods are identified, which are material, a prior year adjustment is required to correct the comparative information.
Note 10 Trade and other payables accruals 2010/11	839	(218)	621	
Note 9 Trade and other receivables – prepayments and accrued income	348	20	368	Income relating to 2011-12 not yet received had incorrectly been treated as a reduction to deferred income.
Related Parties	Some omissions in the lists of members interests were identified and subsequently updated.			Full disclosure.

5.4 SportsScotland Lottery Fund adjusted misstatements

Account Area	Original £000's	Adjustment £000's	Revised £000's	Reason For Adjustment
National Lottery Distribution Fund	24,676	209	24,885	To correct for deferred income adjustment from prior year and revised National Lottery Distribution Fund Statement.
Note 5 Auditors Remuneration	19	2	21	To disclose audit fee as per the approved Audit and Assurance Memorandum.
Note 9 Investments	49,322	203	49,525	To correct the investments value following revised National Lottery Distribution Fund Statement.
Note 11 Trade and other payables – hard commitments payable within 1 year	11,906	(347)	11,559	To reconcile grant report with known adjustments
Note 11 Trade and other payables – accruals and deferred income	522	250	772	To correct for deferred income adjustment from prior year
Note 13 Grant Commitments (Provisions)	1,925	(91)	2,016	To reconcile grant report with known adjustments

5.5 Sportsotland Lottery Fund presentation and disclosure matters arising

Account Area	Requirement	Response
SOFP – investments held	The balance held on behalf of the body at the National Lottery Distribution Fund should be included within the heading "Cash and cash equivalents".	This has been amended on the face on the Statement of Financial Position.
Hard commitments	A breakdown of the provision for the grant commitments should be reported separately for each year up to and including 5 years and for over 5 years.	The statement of accounts has been amended to reflect that the future commitments are due between 2-3 years.

6 Design effectiveness of internal controls

6.1 Accounting system and internal control

As part of our interim audit work we undertook reviews of the key sportsotland financial systems used by sportsotland and the Trust. We found no control issues.

Our audit is not designed to identify all significant weaknesses in sportsotland's internal controls, but is designed primarily for the purpose of expressing our opinion on the financial statements of the body. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work did not encompass a detailed review of all aspects of the internal controls and cannot be relied upon necessarily to disclose all defalcations or other irregularities or to include all possible improvements in internal control.

See 'The small print' for further details of our approach in respect of internal controls

7 Governance

7.1 Introduction

The Board is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The Audit Committee has a role in monitoring these arrangements.

Our work on corporate governance focused on our review of the Group's arrangements to ensure there are effective systems in place for:

- risk management arrangements
- audit committee arrangements
- provision of internal audit services
- committee structures.

7.2 Risk management

We found that the Group have procedures in place to identify, manage and report on risk. This was evident through the risk updates which are presented to the Audit Committee.

7.3 Audit committee arrangements

We reviewed the Audit Committee arrangements as part of our review of the control environment in which the Group operates. We found the Audit Committee contributes to the effective oversight function in place at the Group.

7.4 Internal audit

As part of our work in the first year of our audit, we completed a detailed review of the internal audit function against the government internal audit standards. We found that PWC, in their role as internal auditors, were compliant with all relevant standards.

7.5 Annual Governance Statement

The Annual Governance Statement is a new requirement for 2011-12. A governance statement should provide a clear understanding of a body's internal control structure and its management of resources. The statement should be informed by work undertaken to gain assurance about performance and risk management, providing an insight into the organisation's risk profile and its responses to identified and emerging risks. Essential features are detailed in the Scottish Public Finance Manual (SPFM). There is scope to strengthen the Annual Governance Statement going forward by incorporating best practice.

7.6 Sustainability Reporting

Sustainability Annual Report 2011-12	Auditor Comments
<p>A new requirement of the FReM is that public sector bodies produce an annual report which outlines the economic, social and environmental factors impacting the organisation. This is to be presented in a Sustainability Report.</p> <p>The Scottish Government prepared guidance on this '<i>Public Sector Sustainability Reporting- Guidance on the Preparation of Annual Sustainability Reports</i>' which outlines the suggested minimum reporting requirements covering areas such as:</p> <ul style="list-style-type: none"> - Greenhouse gas emissions - Waste minimisation and management - Finite resources - Action on Biodiversity - Sustainable procurement. 	<p>sportsotland is committed to sustainability in its operations. The organisation has, for example, recently tendered and procured a biomass boiler for Glenmore Lodge at a cost of £200k.</p> <p>This is the first year of the requirement to prepare a sustainability report and guidance was not issued until January 2012, leaving little time to generate the required reporting information across all sites. As a result, some data (for example, information on waste generated) is not available for reporting this year, although management are taking steps to address gaps in available information or to develop robust estimation techniques where required.</p> <p>Management comment The guidance was issued by the Scottish Government in January 2012 and whilst this is not mandatory, the organisation developed its reporting framework during the end of 2011-12 based on the entirety of the guidance.</p> <p>Given the need for significant volumes of information not collected prior to January 2012, it was decided to agree the framework for full capture of information during 2012/13 – this will then be used as the baseline against which to measure future improvement.</p> <p>The Carbon Management Group will capture the detail of sustainable procurement activity and biodiversity during 2012-13 and report accordingly.</p>

8 Action Plan

8.1 Sportsotland Group

Matter Arising	Recommendation	Management Comments	Implementation Date
Accrual for regional funds	An accrual for £250k relating to regional centres is included in the accounts. There has been limited movement in this accrual since it was provided for in 2010. The appropriateness of this accrual should be reviewed.	Agreed. Detailed plans will be sought by the relevant organisations and advised that use of the funds will need to be utilised over an agreed period.	Plans in place by end of December 2012 which will incorporate an agreed period for usage of funds.

9 Appendix 1

9.1 sportsotland Group adjusted misstatements

The adjustments below are as a result of adjusted misstatements in the Trust Company accounts.

Proposed Adjustment	Detail	Balance Sheet		SOFA		Profit effect
		Dr	Cr	Dr	Cr	
1	Dr Accruals and Deferred Income	209k				nil
	Cr Trade Debtors		209k			
	To reduce the deferred income balance to account for monies not yet received as at the year end					
	Dr Prior Year Accruals and Deferred Income	218k				nil
	Cr Prior Year Trade Debtors		218k			
	To adjust prior year comparators as a result of amending the accounting treatment of booked future courses in line with <i>LAS 8</i>					
2	Dr Audit fee expenditure			3k		nil
	Cr Administration expenditure				3k	
	Being the reallocation of expenditure to correctly reflect the Audit Fee payments					
3	Dr Prepayments and accrued income	20k				nil
	Cr Accruals and deferred income		20k			
	To adjust for accrued income included within accrued expenditure					

9.2 sportsotland Lottery Fund adjusted misstatements

Proposed Adjustment	Detail	Balance sheet		SOFA		Profit effect
		Dr	Cr	Dr	Cr	
1	Dr General Fund	250k				
	Cr Deferred Income		250k			
	Cr National Lottery Fund proceeds				209k	Increase 209k
	Cr National Lottery Fund proceeds					
	To adjust income in year due to revised interim National Lottery Distribution Fund statement and reverse prior year deferred income					
2	Dr Investments held in National Lottery Distribution Fund	203k				
	Cr General Fund		203k			nil
	To adjust income in year due to revised interim National Lottery Distribution Fund statement					
3	Dr General Fund	347k				
	Cr hard commitments payable within 1 year		347k			nil
	To reconcile grant report with known adjustments					
4	Dr General Fund	91k				
	Cr provision		91k			nil
	To reconcile grant report with known adjustments					

10 The small print

Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton, the **Audit Committee** of sportsotland Group and the sportsotland Lottery and **sportsotland Lottery Fund** and the Board of Directors.

The purpose of this memorandum is to highlight the key issues affecting the results of the Group and the preparation of the bodies' financial statements for the **year ended 31 March 2012**.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Trust.

This memorandum is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to sportsotland arising under our audit engagement letter.

The contents of this memorandum should not be disclosed to third parties without our prior written consent.

Responsibilities of the directors and auditors

The Accountable Officer is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary.

Therefore, it is essential that the directors confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of roles and responsibilities with respect to internal controls

The Group's Trust's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the **Audit Committee** that it has done so.

The **Audit Committee** is required to review the Group's internal financial controls. In addition, the **Audit Committee** are required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The **Audit Committee** should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the **Audit Committee**.

Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence. We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit