

**sportscotland Group and  
sportscotland Lottery Fund**  
Annual Report to the Board and the  
Auditor General for Scotland  
2014-15

August 2015



# Executive Summary

sportscotland has had a successful year. The Glasgow Commonwealth Games in 2014 delivered the best ever performance by Team Scotland, and the Board delivered the Corporate Plan 2011-2015, and agreed the Corporate Plan 2015-19.

Looking ahead, like many central government bodies, sportscotland is facing increasing financial restraint and therefore challenges to the achievement of its outcomes. Key partners, such as local authorities face financial pressures which may restrict their commitment to sport development. Continuing to focus on outcomes and impact are key themes within the Board's Corporate Plan and Investment Principles 2015-19, and the supporting Sports Governing Body Governance Framework helps to strengthen partnership arrangements.

## Financial statements

- We intend to give an unqualified opinion on both the financial statements of the **sportscotland** Group and the **sportscotland** Lottery Fund.
- No issues were noted relating to the regularity of transactions undertaken for the 2014-15 financial year.
- The draft financial statements and supporting working papers were generally of a good standard, and as a result there were few audit adjustments required following our audit.
- We operate a risk based approach when planning our audit work and focus our audit effort on the areas with the highest risk. As part of our plan we identified one significant risk of management override of controls and reasonably possible risks relating to the misstatement of grants payable, understatement of operating expenditure and employee remuneration.
- Our review of the control environment highlighted one finding to strengthen cut off controls relating to capital grant payments.
- We applied separate levels of materiality to the **sportscotland** group, and to the Lottery Fund. Materiality was set at £967k for **sportscotland**, and £592k for the Lottery Fund.
- We have reviewed key judgements made by management and disclosure of accounting policies and found policies to be in line with FReM requirements.

## Governance

- The Board reported through their Annual Governance Statement that there were adequate governance processes in place during 2014-15. Our audit work supports this assessment.
- We have reviewed the processes and procedures in preparing the Annual Governance Statement to ensure compliance with the Scottish Public Finance Manual (SPFM) and found the assurance arrangements to be well structured.
- The Audit Committee reviewed its compliance against the SPFM and highlighted areas for improvement, including the setting of key objectives for its work and annual reporting processes. The induction of new members to the audit committee provides an opportunity to refresh priorities and develop a clear work plan for the committee.
- Risk management arrangements were reviewed by internal audit during 2014-15. They found that arrangements are generally robust, but that the high performance programme may be subject to less scrutiny. Improvements have been agreed with management.
- Anti-fraud and corruption measures are in place across **sportscotland**, and additional training has been provided for Sports Governing Bodies. The Board also approved an updated Code of Conduct for members during the year.

## Best value, use of resources and performance

- The Board's Corporate Plan 2015-19 has been issued, and builds on prior work to outline a mission "to build a world class sporting system for everyone in Scotland".
- The Board has a planning and accountability framework in place to monitor and report on performance against the Corporate Plan.
- Grant funding for sporting organisations across Scotland exceeded £52 million in 2014-15. The Board has strengthened arrangements to monitor the impact and outcomes from investments during the year.
- The Board's financial position has been significantly impacted by pension fund liabilities associated with the Strathclyde Pension Fund. As a result, the **sportscotland** Group now report a negative reserves position.

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# 1. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the **sportscotland** for 2014-15.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.



# Introduction

## Purpose of this report

Audit Scotland appointed Grant Thornton UK LLP as auditor of **sportscotland** and the **sportscotland** Lottery Fund for the 5 year period 2011-12 to 2015-16. This appointment is made under the Public Finance and Accountability (Scotland) Act 2000.

Our annual audit report is addressed to those charged with governance at **sportscotland**, and the Auditor General for Scotland. The report summarises our opinion and conclusions on significant issues arising from our audit for the year ended 31 March 2015.

The scope of our audit work was set out in our Audit Plan, which was presented to the Audit Committee on 29 April 2015.

## The Board's responsibilities

It is the responsibility of the Board and the Accountable Officer to prepare the financial statements in accordance with the HM Treasury Government Financial Reporting Manual (the FReM).

This means the Board must:

- prepare financial statements which give a true and fair view of the financial position of the **sportscotland** Group and the **sportscotland** Lottery Fund and the income and expenditure for the year to 31 March 2015
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

The Board is also responsible for establishing proper arrangements to ensure that:

- business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources.

## Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice ('the Code') which was published in May 2011, and is approved by the Accounts Commission and the Auditor General for Scotland.

The Code highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that audits in the public sector audit must be planned and undertaken from a wider perspective than the private sector. Our responsibilities are outlined in **Figure 1**.

We are required to provide an opinion on the financial statements and annual governance statement. Under the Code we are also required to review and report on the governance arrangements, Best Value, use of resources and performance.

Under the requirements of the International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with those charged with governance, we are required to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report to the Board, together with previous reports to the Audit Committee throughout the year, discharges our ISA 260 commitments.



## Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Financial Controller, the Head of Finance, the Director of Corporate Resources and the finance team during the course of our work.

Figure 1: Our responsibilities under the Code of Audit Practice

Financial Statements 

- Provide an opinion on:
- whether the financial statements provide a true and fair view of the financial position of the **sportscotland** Group and the **sportscotland** Lottery Fund
  - whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
  - the regularity of expenditure and income

Corporate governance 

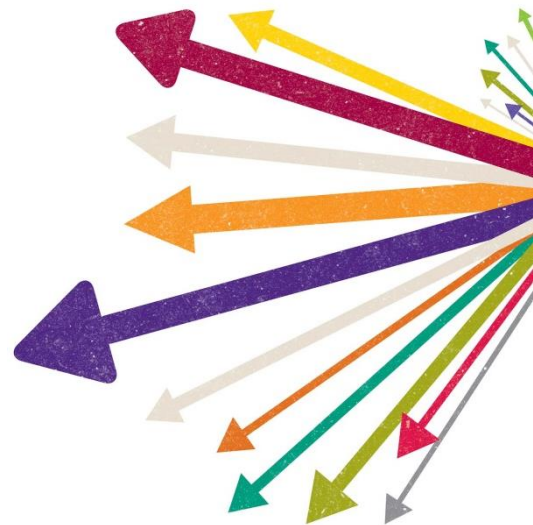
- Review and report on **sportscotland's** corporate governance arrangements as they relate to:
- **sportscotland's** corporate governance and systems of internal control, including reporting arrangements
  - the prevention and detection of fraud and irregularity
  - standards of conduct and arrangements for the prevention and detection of corruption

Best Value and performance 

- The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which the Board and other public bodies have used their resources to discharge their functions.
- In accordance with guidance issued by Audit Scotland, the Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value.
- In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic for the Board at a local level or a review of **sportscotland's** response to national recommendations. In 2014-15 we have completed a baseline assessment of the financial capacity at **sportscotland**.

*An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code and may not be all that exist.*

*Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.*





# 2. Financial statements





# Financial Statements

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## Introduction

Within this section of the report, we present our audit findings to management and those charged with governance in accordance with the requirements of International Standard of Auditing (UK & Ireland) 260.

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 29 April 2015\*.

As part of our work on the group financial statements, we reviewed the audit findings and adjustments relating to the Trust Company financial statements. The findings, and our assessment of the impact on the group audit is attached at Appendix C.

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## Our Review of the Financial Statements

The draft financial statements were of good quality, although the annual review of sportscotland's activities and impact for 2014-15 was not finalised until the end of our fieldwork.

As part of our work on the financial statements we are required to review the narrative elements of the financial statements including:

- the Report of the Council
- Directors Report
- Strategic Report
- Annual Governance Statement
- Elements of the Remuneration Report; and
- The Accountable Officer's Report.

We review the narrative elements of the financial statements for compliance with required FReM disclosures, for consistency with other areas of the financial statements and our knowledge of sportscotland.

We reviewed the financial statements against the requirements of the Government Financial Reporting Manual (the FReM) which resulted in only minor disclosure adjustments being made.

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## Regularity

We did not identify any instances of irregular expenditure or non-compliance with laws and regulations in the sportscotland group, or sportscotland Lottery Fund.

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## Financial Statements Opinion

We intend to give an unqualified opinion on the financial statements of the sportscotland group and the sportscotland Lottery Fund.

Our audit identified one material adjustment to the Lottery Fund financial statements, relating to the categorisation of hard and soft capital commitments. As a result, the Lottery Fund General Fund balance increased by £0.7million.

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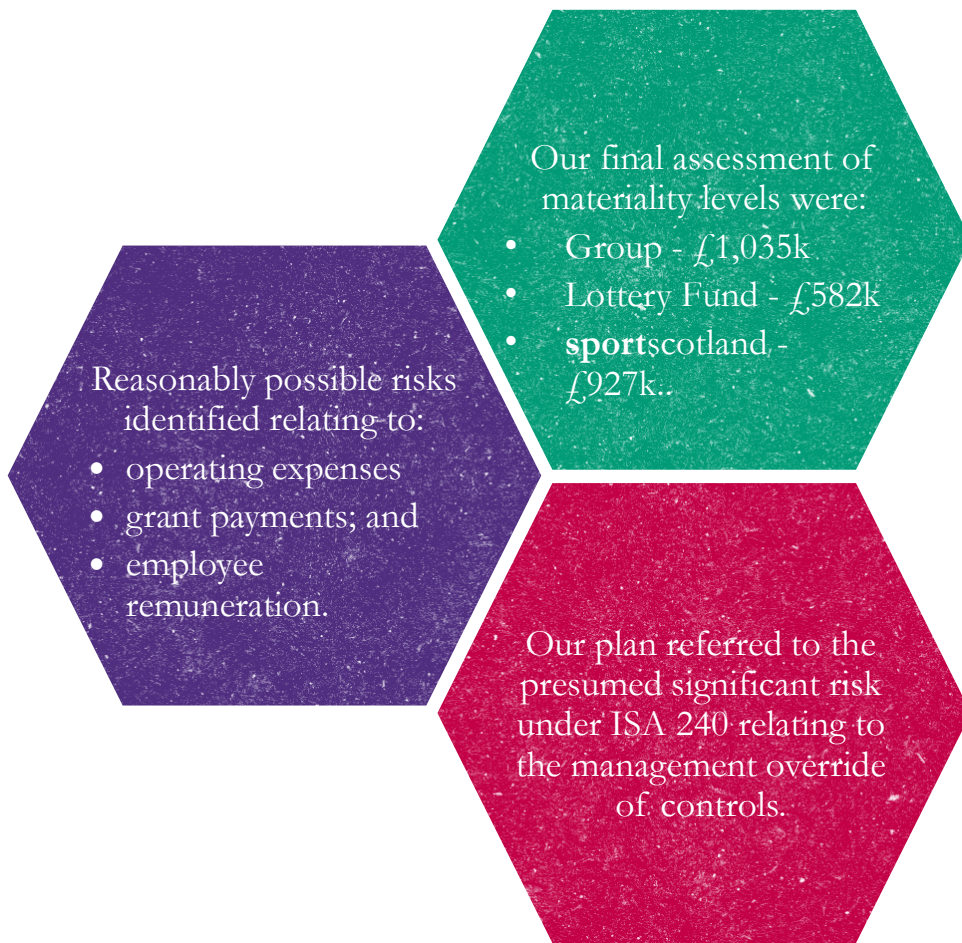
## Whole of Government Accounts

sportscotland will remain below Audit Scotland's thresholds for submitting audited Whole of Government Account returns. The threshold for audit is £350 million.

\* Note that the original Audit Committee, scheduled for 26<sup>th</sup> March was rescheduled.



# A summary of our audit plan relating to financial statements



# A reminder of our approach

## Scope of the Audit

We operate a risk based audit approach. The starting point for our audit was to consider the inherent risks to the sportscotland Group and Lottery Fund and how these may result in a material misstatement in the accounts. We identified one significant risk and three reasonably possible risks which have been outlined at **Table 1** and **Table 2**.

The financial results of the Scottish Sports Council Trust Company (the Trust Company) are consolidated into the sportscotland Group financial statements. ISA (UK&I) 600 requires that as group auditors, we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. We summarise our assessment of the Trust Company audit, and the impact on our audit in **Appendix C**.

Systems linked to those areas where we had identified a risk were subject to increased audit focus including consideration of the control environment, in particular whether the systems were operating effectively.

We conduct a range of audit procedures across all balances above performance materiality, including analytical review, agreement to third party confirmations and sample testing. Throughout the audit we have tailored the level of procedures to take account of the level of assessed inherent risk.

We also consider all disclosures in the financial statements and ensure compliance with the FReM issued by HM Treasury (endorsed by the Scottish Government). We consider whether these are also consistent with the information gathered from our audit work.

We did not identify any new areas of risk or change our approach over the course of the audit.

## Application of Materiality

We outlined in our audit plan that we had set individual materiality levels for the Trust Company within the Group accounts. The Trust Company audit was performed by a separate audit team and has been reported via the Trust Board.

In planning the group audit and the audit of the Lottery Fund, we have updated our thresholds from 2013-14 estimates using financial information from the 2014-15 draft accounts. We have maintained our benchmark of 2% resource expenditure.

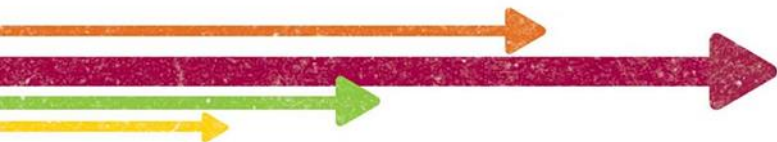
The primary focus of the Board is to deliver funding for the purposes indicated by the Royal Charter. As such, we consider resource expenditure to be the most appropriate benchmark to meet the expectations of users. Total resource expenditure per the group accounts is £51,725k, resulting in a group materiality threshold of £1,035k. This means that cumulative unadjusted misstatements above this limit would have resulted in a qualified audit opinion.

The sportscotland Lottery Fund's expenditure of £29,116k resulted in final materiality being assessed as £582k.

In addition to overall materiality we also establish a level for performance materiality, which as defined by ISA 320 is the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Performance materiality is the maximum amount the audit team will accept in an individual account.

We set our performance materiality at 70% of materiality which gave a measure of £723k for the Group, and £407k for the Lottery Fund.

At all times throughout the audit we have assessed the impact on the financial statements. Items which were considered material by nature (eg cash and remuneration report disclosures) were subject to a higher degree of audit scrutiny.





# Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards. However, as outlined in our external audit plan, we have rebutted the risk relating to revenue recognition leaving one significant risk applicable to the Board's financial statements.

Table 1: Significant Risks identified at the planning stage

Risks identified in our audit plan	Work completed	Assurances and issues arising
<p>1 <b>Management override of controls</b> Under auditing standard ISA (UK&amp;I) 240 there is a presumed risk that the risk of management override of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> <li>• Walkthrough of controls associated with key financial systems.</li> <li>• Agreement of the financial statements and disclosures against financial data in the general ledger</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>



*Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty*

(ISA (UK&I) 315).

# Audit findings against reasonably possibly risks

Reasonably possible risks are, in the auditor's judgement, other risk areas which they have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement is lower than that for a Significant Risk, and they are not considered to be areas that are highly judgemental, or unusual in relation to the day to day activities of the business.

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

**Table 2: Reasonably possible risks identified at the planning stage**

Transaction cycle	Description of risk	Work completed	Assurances gained and issues arising
<b>Grant Payments</b>	<p><b>Grant commitments understated:</b></p> <p>Grant payments represent the single largest activity of sportscotland.</p> <p>There is a risk that grants paid or due to organisations as at the 31 March 2015 are incorrectly recorded or may not have been paid in line with established procedures.</p>	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> <li>Review and walkthrough of the processes and controls in operation for payment of grants</li> <li>Testing of grant payments to ensure compliance with authorisation policies. We reviewed associated grant payments to ensure they were of in line with the value approved in the investment plan, and that the remittance was treated appropriately.</li> </ul> <p>During our testing, we reviewed the allocation of hard and soft grant commitments within the Lottery Fund accounts using the definition provided within the Accounts Direction. We noted a number of instances where hard commitments had not been signed as agreed by the relevant receiving body.</p> <p>Further work identified four capital grants included within hard commitments that should have been classified as soft commitments. As a result, an adjustment was processed within the Lottery Fund accounts to reclassify £711k as soft commitments.</p>	<p>The control environment was considered to be operating effectively with numerous controls in place over the payment of grant funding. We have, however, made one recommendation relating to controls over the classification of hard and soft commitments at the year end.</p> <p><a href="#">Refer to Action Plan Point 1</a></p> <p>Our sample selection covered both payments in year and commitments for funds due at the year end date.</p>





Table 2 continued: Reasonably possible risks identified at the planning stage

Transaction cycle	Description of risk	Work completed	Assurances gained and issues arising
<p><b>Operating expenditure</b></p>	<p>Operating expenses/ payables and accruals are understated or not recorded in the correct period: There is an element of uncertainty for accruals which may require estimation techniques and management's judgement. There is a risk that payables may not be posted in the correct financial year and liabilities understated.</p>	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> <li>• Review and walkthrough of the expenditure cycle controls to gain an understanding of the processes and to confirm that they operate as described</li> <li>• Substantive testing of accruals at the year end date.</li> <li>• Judgemental sample testing of expenditure during the year to invoice and appropriate recognition within the general ledger.</li> <li>• A review of post year end payments to ensure these were adequately included within year end payables when relating to the 2014-15 period.</li> </ul>	<p>We gained sufficient assurance over year end payables and expenditure during the period.</p>
<p><b>Employee remuneration</b></p>	<p>Employee remuneration accruals understated: Employee costs accounted for around 55% of non-grant expenditure in 2014-15. There are a large number of transactions processed throughout the year and sportscotland relies on numerous controls including monthly reconciliations and segregated duties when compiling payroll to ensure that the employee costs are recorded correctly in the financial statements.</p>	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> <li>• Review and walkthrough of the processes and controls in operation for payment of staff.</li> <li>• Substantive testing of payroll accruals at the year end</li> <li>• Judgemental sample testing of staff members to HR system and the recalculation of employer costs</li> <li>• Analytically review payroll expenses in comparison to expectations and investigation any significant variances</li> <li>• Review of the relevant disclosures relating to staff costs within the financial statements</li> </ul>	<p>We gained sufficient assurance over payroll processes to conclude that there are no material misstatements.</p> <p>We highlight that our work on sportscotland's remuneration report is continuing, following identification of minor disclosure amendments. We do not foresee any further material changes to the draft report.</p>

# Accounting estimates and significant judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Board's financial statements.

Table 3: Accounting estimates and significant judgements

Accounting area	Summary of policy	Our comments	Our assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>The policy noted within the accounts is as follows: "Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable. Where income is received for a specific activity that is to be delivered in the following year, that income is deferred."</li> </ul>	<ul style="list-style-type: none"> <li>The revenue recognition policies are appropriate under the Government Financial Reporting Manual.</li> <li>The disclosure in the draft accounts was found to be reasonable and in line with prior years.</li> </ul>	
<b>Property, Plant &amp; Equipment</b>	<ul style="list-style-type: none"> <li>Land and buildings are re-valued from initial recognition in line with guidance (5 year programme, 3 year interim). Other assets are held at cost and depreciated accordingly.</li> </ul>	<ul style="list-style-type: none"> <li>Numerous items of plant &amp; equipment are held on the fixed asset register at nil net book value. We recommend management undertake a cleanse of the register, so that it might more accurately reflect the assets remaining in use within the group. <a href="#">Refer to Action Plan Point 2</a></li> <li>During 2014-15, the finance team requested revaluations for land and buildings outwith the usual revaluation programme, as a result of significant changes. The National Performance Centre at Cumbrae was not included with in the revaluation exercise. Under International Accounting Standard (IAS) 16, all assets within any class of asset should be valued at the same time. We are satisfied with management's assessment that there is unlikely to be a material impact on the financial statements, but future revaluations should cover full classes of asset.</li> </ul>	

Assessment:




-  Marginal accounting policy which could potentially attract attention from stakeholders
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient



Table 3 continued: Accounting estimates and significant judgements

Accounting area	Summary of policy	Our comments	Our assessment
Pensions	<ul style="list-style-type: none"> <li>Strathclyde Pension Fund is guaranteed by the Scottish Government. <b>sportscotland</b> receive pension valuations from a third party firm of actuaries, Hymans Robertson LLP, who base their calculations upon existing available data and a series of assumptions.</li> </ul>	<ul style="list-style-type: none"> <li><b>sportscotland</b> accounts for its participation in the Strathclyde Pension Fund in accordance with IAS 19: Employee Benefits, on a defined benefits basis.</li> <li>Our audit of the accounting for employee benefits includes an evaluation of Hymans Robertson, as the Actuarial experts, consideration of the data underlying the actuarial report, the financial assumptions and membership data provided to the actuary by <b>sportscotland</b>.</li> <li>The actuaries make a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive anticipated future liabilities and future salary increases.</li> <li>As part of its work for the sector, Audit Scotland commissions PricewaterhouseCoopers to review the work of actuaries, including Hymans Robertson. Their report found that Hymans Robertson actuaries are appropriately qualified, and the firm is experienced and well-reputed. There are no known circumstances which would impair their objectivity to produce the figures and they have confirmed that their reports are compliant with the relevant Technical Actuarial Standards.</li> <li>Pension liabilities have increased during 2014-15 and, in common with many public sector organisations, form a significant liability in the Statement of Financial Position. We therefore considered the pension liability as part of our assessment of going concern. Discussions with management highlight that <b>sportscotland</b> hold written assurance from the Scottish Government confirming that should the liability crystallise, the debt would be met by the Scottish Government.</li> </ul>	●
Other Estimates and judgements	<p>Other key estimates and judgements are:</p> <ul style="list-style-type: none"> <li>Investments in the National Lottery Distribution Fund</li> </ul>	<ul style="list-style-type: none"> <li>The draft <b>sportscotland</b> Lottery Fund accounts include an estimate for the level of investments as at 31 March 2015. The estimate is based on an interim statement, but we note that the final statement from 2013-14 was materially different and therefore required to be adjusted.</li> <li>We will seek assurances on the final statement prior to completing our review of post balance sheet events.</li> </ul>	●

## Other areas of audit focus

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### Internal controls

We update our understanding of sportscotland's operations and key financial controls systems each year and tailor our audit strategy to focus on key risk areas.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. During our interim audit, we conducted testing on the following areas:

- employee remuneration
- grants payable
- operating expenses

We did not identify any significant deficiencies or material weaknesses arising from our testing of the systems.

Overall, the results of our interim testing and review of internal audit work confirmed that there is a sound system of internal control covering key financial systems operated by the Board.

We would, however, draw the Board's attention to the treatment of suspense accounts within the general ledger. Amounts rested in suspense accounts in the year which were of trivial value to the 2014-15 audit. It is considered best practice for suspense accounts to be regularly reviewed and cleared as appropriate.

[Refer to Action Plan Point 3](#)

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### Going Concern

As part of the audit, we have considered management's assessment of going concern. sportscotland receive a letter of comfort from the Scottish Government detailing the Grant-in-Aid for 2015-16. sportscotland hold a further letter of comfort from the Scottish Government relating to the liability for the pension fund.

Based on the allocation from Scottish Government sportscotland have incorporated this level of funding into their Business Plan for 2015-17. A Corporate Plan covering the period 2015-19 has also been prepared.

Our work has identified no significant issues in relation to going concern.

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### Related Parties

We are not aware of any related party transactions which have not been disclosed

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### Disclosures

Our work on the final accounts disclosures is on-going. To date we have proposed a number of minor adjustments including:

- Adjustments to the draft remuneration report
- Small disclosure adjustments to improve the user's understanding and presentation of the document.

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### Sustainability reporting

The Treasury's Financial Reporting Manual (FRM) requires central government bodies to include a section in their annual report which outlines the economic, social and environmental factors impacting the organisation. This is to be presented in a Sustainability Report.

Public Sector Sustainability Reporting- Guidance on the Preparation of Annual Sustainability Reports was published by the Scottish Government and outlines the minimum reporting requirements covering areas such as:

- greenhouse gas emissions
- waste minimisation and management
- finite resources
- action on biodiversity
- sustainable procurement.

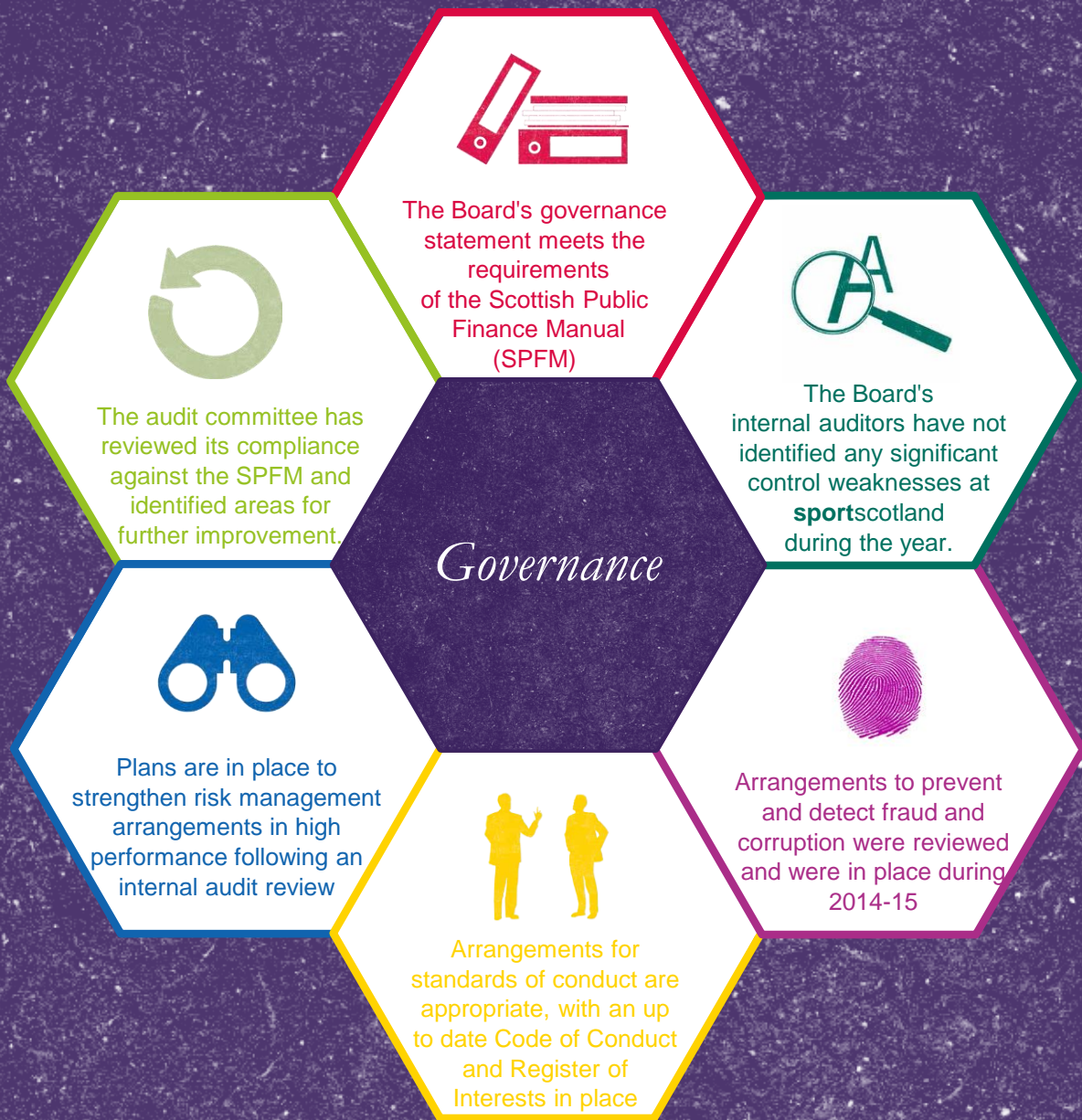
At sportscotland, due to the timing of the production of the Sustainability Report, the Annual Report refers to the website, rather than any specific data or a specific link to the report.

If timing allows, the Annual Report would be improved by including a specific reference to the 2014-15 Sustainability Report. We would also prefer to review the disclosures relating to economic, social and environmental factors against the minimum reporting requirements.

[Refer to Action Plan Point 4](#)



# 3. Governance





# Governance

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## Introduction

Under the Code of Audit Practice, we have a responsibility to review **sportscotland's** corporate governance arrangements.

In May 2015, the Scottish Government published the updated [On Board](#) guidance for Board members, which provides support on key areas including corporate governance, ethics and standards of behaviour and effective financial management.

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## Governance Statement

Under the Treasury's Financial Reporting Manual (FReM), the Board must prepare a Governance Statement within the Statement of Accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the Governance Statement as it forms a key summary of the governance ethos of the Board, and provides assurances around the achievement of the vision and strategic objectives of **sportscotland**.

The statement should be informed by work undertaken throughout the period 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.

The SPFM does not prescribe a format for the Governance Statement, but sets out minimum requirements for central government bodies. Our review of **sportscotland's** Governance Statement highlighted that all relevant areas of the guidance were addressed.

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We found that **sportscotland's** assurance arrangements continue to be well-structured. Each Director completes an annual self-assessment return against the Scottish Government's Internal Control Checklist. The Chief Executive also refers to the work of internal and external auditors when forming his view on the strength of internal controls.

Within the Statement, the Board has included additional commentary on attendance rates for non-executive members.

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## Risk management

The Board's Annual Governance Statement discloses its approach to risk management. The Board has risk registers in place at corporate, and programme level. Risks are reviewed by the Board annually, and the Audit Committee every six months. Following each review, **sportscotland** agrees a control strategy or mitigation for each of the significant risks.

Key areas of risk remain on the Board's corporate level risk register. These include:

- the continuing pension liability, although limited mitigating action can be taken at Board level
- changes in relationships with key partners within the sporting system.

In October 2014, the Board's Internal Auditors reviewed the adequacy and effectiveness of the risk management arrangements in place at **sportscotland**. They considered the Board's risk management strategy, responsibilities, policies and processes and the approach taken at strategic and operational levels.

The internal auditors made a number of recommendations designed to further improve the arrangements. They highlighted that there is currently no risk register on the covalent system for the high performance programme, which means that it may not be subject to the same level of scrutiny as other programmes.

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## Prevention and Detection of Fraud and Irregularity

The integrity of public funds is a key concern for the organisation and for auditors. As external auditors, we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.

The Board has had a fraud prevention and whistleblowing policy in place for a number of years. In 2014, **sportscotland** enhanced the policies to reflect the risks associated with betting scandals. A programme of anti-corruption training was developed and provided both to staff across **sportscotland**, but also for Sports Governing Bodies.

**sportscotland** also participates in Audit Scotland's National Fraud Initiative. During 2014-15 the data matching exercise found 1360 matches of which 200 were recommended matches. The Head of Finance currently has responsibility for reviewing matches, and had resolved the top ten matches with no issues arising. At the time of our review no action had been taken on the remaining matches.

[Refer to Action Plan Point 5](#)

Following enquiries with the Board's management and internal audit, we note that there have been no instances of fraud or whistleblowing in the current financial year.

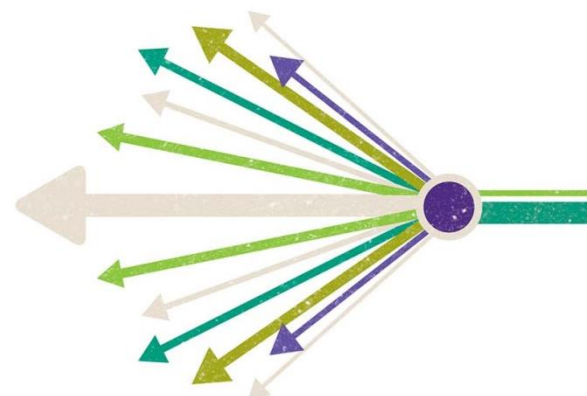
To support our opinion, we also conducted testing on journal entries and reviewed transactions to identify any potential related parties. There were no issues arising from this testing.

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## Arrangements for maintaining Standards of Conduct and detection of corruption

In line with the Ethical Standards in Public Life etc (Scotland) Act 2000, the Board has established a Code of Conduct for Board Members, which was approved by Scottish Ministers. The Code was reviewed and updated in October 2014 based on the updated Model Code for Board Members of public bodies.

A register of interests is available for each Board member on the Board's website, and declarations of interest are made at each Board meeting.





## Partnership Working

In 2015, **sportscotland** developed a new Governance Framework for working with Sports Governing Bodies. The Framework sets out twelve core principles to help ensure that the Board's Investment Principles are delivered.

**sportscotland** expects each organisation that it invests in to be fit for purpose, well-organised and well-structured bodies, that make efficient and effective use of resources. The Framework is therefore based on three areas:

- Well led
- Strong networks
- Robust organisations

Table 4: The twelve principles of good governance for SGBs in Scotland

1. Commitment to implementing the Nolan principles
2. Commitment to continuous improvement
3. Strategic planning framework
4. Appropriate board composition
5. Succession planning
6. Effective performance management systems
7. Clear roles and responsibilities
8. Legally compliant
9. Effective control environment
10. Appropriate operational structure
11. Positive relations and partnerships
12. Proactive GB and home country engagement

Source: SGB Governance Framework, **sportscotland** 2015

## Inverclyde development

One of the key activities for **sportscotland** over the next year will be the redevelopment of the Inverclyde National Training Centre to become a fully inclusive venue, allowing para-sports to use the facilities. A strategic partnership is in place with North Ayrshire Council, following its approach to use part of the land belonging to the Trust as a new schools estate for Largs.

Other key partners in the development include para-sports, a number of small and medium-sized sports governing bodies and existing user groups.

The project is being managed by a Project Board, chaired by the Director of Corporate Services, with involvement from facilities, HR, Finance and Communications.

A number of workstreams report in to the Project Board, with named individuals responsible for each part of the programme.

In June 2015, **sportscotland** received a number of tenders for the design and build of the Centre. Each will now be subject to evaluation. A Quantity Surveyor has been engaged to provide assurance to the tender evaluation team around the quality of the bids.



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## Internal audit

The Board's internal audit function is provided by BDO LLP, an external firm of accountants. Internal audit provide an annual opinion to the Audit Committee on the assurance framework. In 2014-15, they issued the following opinion:

*"In our opinion, based on the reviews undertaken, the follow up audits completed during the period, and in the context of materiality:*

- The risk management activities and controls in the areas which we examined were found to be suitably designed to achieve the specific risk management, control and governance arrangements.*
- Based on our verification reviews and sample testing, risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable assurance that the related risk management, control and governance objectives were achieved during the period under review."*

The internal audit reports throughout the year highlight a high level of compliance, with substantial or moderate assurance achieved for each review. No high risk recommendations were made.

In 2015-16, the internal auditors will focus on areas of risk, including:

- Corporate governance
- The transfer of data from the old to the new finance system, to provide management with assurance on opening balances
- ICT strategy and security
- Key financial controls.

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## Scottish Public Finance Manual

The Scottish Public Finance Manual (SPFM) is issued by Scottish Ministers to provide guidance to the Scottish Government and other central government bodies on the proper handling and reporting of public funds.

In March 2014, the **sportscotland** Audit Committee considered its level of compliance against the SPFM Compliance Checklist.

The review found a high level of compliance, but highlighted additional areas for improvement:

- the Committee has committed to agreeing key objectives for the year and reviewing them annually; and
- the Chair's annual report to the Board will be enhanced to consider the annual review by the Committee against its agreed objectives.

During 2015, the Committee welcomed a number of new members. This is therefore an area that the Committee will continue to develop in 2015-16.





# 4. Best Value, Use of Resources and Performance





# Best value and performance

## Development of the Corporate Plan

2014-15 was the final year of sportscotland's 2011-15 Corporate Plan. The mission was to develop and support a world class sporting system at all levels in Scotland. The Board has reported successes against a number of key commitments, including participation in Active Schools and increased investment in club sport. The Corporate Plan also covered a period of major sporting events in Scotland and the rest of the UK. Over the period of the plan, Scotland achieved a series of best ever outcomes, including the best ever performance by Team Scotland at the 2014 Commonwealth Games in Glasgow, with 53 medals from 63 medallists across 10 sports, and a fourth place finish in the medal table.

At the London 2012 Olympics and Paralympics, Scottish athletes participated in a record number of sports and contributed 20% of the overall medals and 25% of the gold medals.

During 2014, the Board began consulting a range of stakeholders on the development of the next Corporate Plan. In April 2015, the updated Plan was published. The mission builds on the last Corporate Plan, to build a world class sporting system for everyone in Scotland.

The Board has established a number of outcomes to deliver for people in Scotland during the period of the new Plan, based on participation and progression. These will be underpinned by the same enablers:

- People: supported by quality people who work together to help them achieve their goals
- Places: access to a network of quality places where they can get involved in sport
- Profile: a range of opportunities and inspired by the success of Scottish sport

The Board's Corporate Plan is supported by a planning and accountability framework, which links to the Scottish Government's Active Scotland Outcomes Framework and translates the vision, mission and outcome measures into a two-year Business Plan.

The Corporate Plan identifies three priorities which underpin the drive to improve the sporting system in Scotland.

The priorities are:

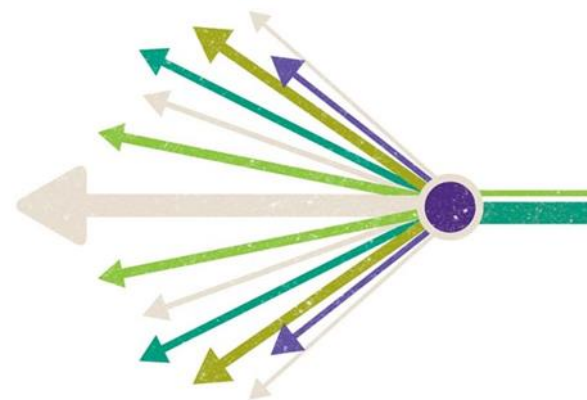
- equalities and inclusion
- people development; and
- collaboration and impact.

These priorities are embedded in the impact measures within the corporate plan and the portfolios within the business plan.

## Performance reporting

The planning and accountability framework sets out reporting timescales and responsibilities. The Board has adopted the Covalent performance management system, which is updated against each programme throughout the year.

Each year, sportscotland reports on performance against key indicators within the annual report. The 2014-15 Annual Review presents a range of outcome indicators against each programme areas. There were no exceptions reported against planned activities or budgets.



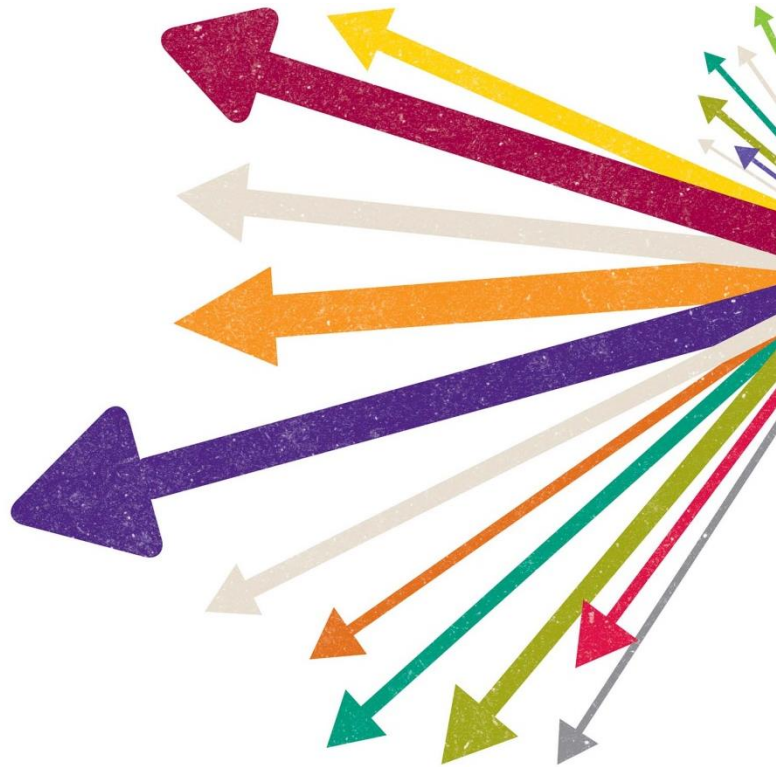
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## Delivering outcomes

In April 2015, the Board's internal auditors reported on their evaluation of the investment processes in place for SGBs. Their objectives were to verify that a fair and consistent process is in place for SGB funding, that investment decisions are appropriately scrutinised and that investment criteria are aligned to **sportscotland's** corporate objectives.

The internal auditors found that the refreshed Investment Framework clearly links the investment process to the outcomes of the **sportscotland** Corporate Plan, which is in turn aligned to the Scottish Government's *Reaching Higher* and *Lets Make Scotland More Active* strategies.

The internal auditors also noted that the Board's arrangements ensure that SGBs must clearly demonstrate an outcome focus, aligned to **sportscotland's** national priorities.



# Use of resources

## Objectives

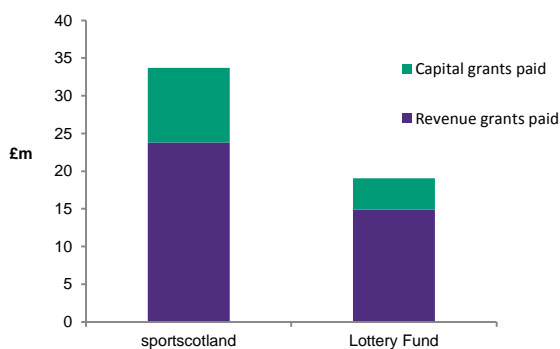
sportscotland's vision is to develop and support a world class sporting system at all levels. To deliver this ambition, a key role of sportscotland and the sportscotland Lottery Fund is to distribute grant funding to sports governing bodies, local authorities and other organisations to achieve key outcomes linked to the national performance framework.

The sportscotland Lottery Fund distributes lottery funds via revenue funding to partners and capital funding, in line with principles within the Corporate Plan.

## Grant funding in 2014-15

During 2014-15, sportscotland awarded £33.7 million in revenue and capital grants (2013-14: £29.7m) to support sport in Scotland. A further £19.1 million in grants was paid by the sportscotland Lottery Fund (2013-14: £22.3m).

Figure 1: A total of £52.8 million grants were awarded during 2014-15



Source: sportscotland and sportscotland Lottery Fund Annual Report and Accounts 2014-15

Capital grants paid from the Sports Facilities Fund, increased by £4.45 million to £9.8 million in 2014-15. This funding stream funds developments that are for public benefit and equitable opportunities for increased sports participation by the community at local level.

Key developments in 2014-15 include the National Performance Centre, Ratho, and planning and design for the Inverclyde development.

Figure 2: Revenue funding from sportscotland consists of annually paid sports development grants across three priority areas



Source: sportscotland Annual Report and Accounts 2014-15

As Figure 2 highlights, revenue funding remained broadly in line with 2013-14 figures across the three priority areas.

During 2014-15, sportscotland outlined its approach to making investment decisions with principal partners; local authorities and Sports Governing Bodies. The Board's Investment Principles 2015-19 recognises the integrated approach necessary to develop the sport system in Scotland, and outlines how the impact of investment will be measured.

The investment principles are:

- System approach: partners who are committed and connected to the development of a world class sporting system
- Impact: partners that deliver significant impact against the sportscotland's outcomes
- Sustainability: activities that have a long term approach
- High Standards: in line with good practice around governance, ethics, equality, safeguarding, planning, budgeting, monitoring and evaluation
- Additionality: in line with National Lottery guidelines, investments will only support additional impact over and above what would otherwise be achieved.

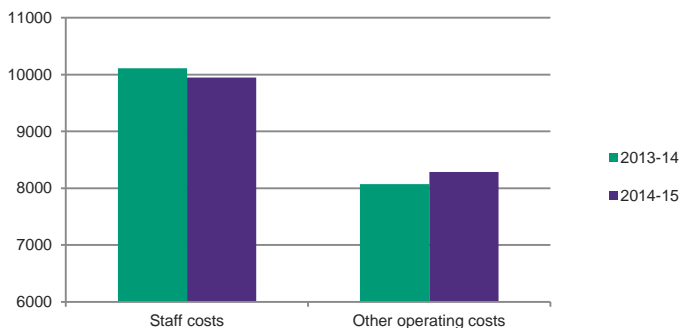


## Running expenditure

Running costs for the sportscotland group totalled £18 million in 2014-15. As Figure 3 shows, there were reductions in expenditure across both staff costs and other operating expenditure. In total, running costs were reduced by over £300k on 2013-14. In addition, the Board has been asked to deliver a planned underspend of over £630k in 2014-15 and 2015-16.

Staff costs attributed to the sportscotland group reduced from £10.11 million to £9.95 million partly as a result of a further reduction in average staff numbers, from 272 to 263. We also noted that sickness absence rates increased marginally to 1.2% (2013-14: 0.8%).

Figure 3: Running expenditure fell by over £300k during 2014-15



Source: sportscotland Annual Report and Accounts 2014-15

Running costs for the Lottery Fund totalled £6.78 million in 2014-15, an increase on the prior year (2013-14: £5.49 million), principally as a result of higher staff costs recharged from sportscotland.

## Income

sportscotland (including the Trust Company) received grants from the Scottish Government totalling £44.64 million (2013-14: £43.2m). Other income of £4.95 million was generated, predominantly from Trust activities at the national sports centres (2013-14: £5.3m).

The Lottery Fund received national lottery proceeds of £31.7 million, which was a £4.2 million increase on the prior year. Of this, £26.97 million was called down from the National Lottery Distribution Fund towards the payment of awards and the administration of the Fund.

## sportscotland Financial Position

sportscotland's Group Statement of Financial Position reflects a negative reserves position, as a result of pension fund liabilities. The overall reserves decreased from £4.5 million in 2013-14 to a £4 million liability in 2014-15. Changes in actuarial assumptions meant that pension liabilities increased by £6.76 million, to £14.58 million. Our review of the pension liabilities is explained within the Financial Statements Section, on page 15.

The Group General Fund reserve decreased by £900k to £8 million in 2014-15. Table 4 highlights that other changes were minimal, although current assets fell by around £1 million as a result of lower cash balances at the year end.

Table 5: sportscotland Group Statement of Financial Position

	Year ended 31 March 2015 (£m)	Year ended 31 March 2014 (£m)
Non-current assets	11.309	11.847
Current assets	1.633	2.603
Current liabilities	2.298	2.085
<b>Total net assets</b>	<b>10.644</b>	<b>12.365</b>
Non-current liabilities	14.659	7.890
<b>Total equity</b>	<b>(4.015)</b>	<b>4.475</b>

Source: sportscotland Annual Report and Accounts 2014-15

## Lottery Fund Financial Position

The Lottery Fund accounts include a significant estimate relating to investments, based on the interim statement from the National Lottery Distribution Fund. In 2013-14, the financial statements were updated following receipt of the final statement in July 2014.

The draft accounts highlight that the Lottery Fund's financial position remains strong, with the Statement of Comprehensive Income showing a £2.7 million increase to the Fund reserves (2013-14: decrease of £1.98m).

As Table 6 highlights, the General Fund balance now stands at £40.6 million (2013-14: £37.9m).

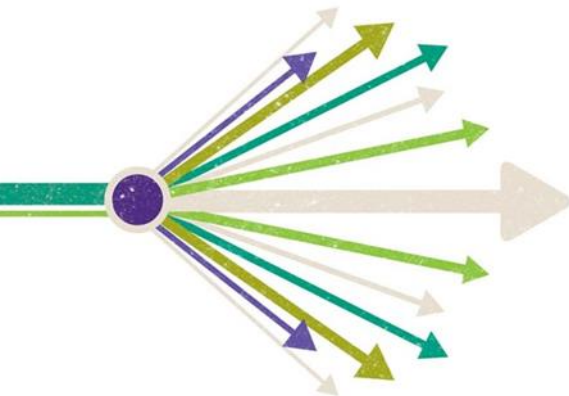
Table 6: Lottery Fund Statement of Financial Position

	Year ended 31 March 2015 (£m)	Year ended 31 March 2014 (£m)
Non-current assets	0.085	0.020
Current assets	59.803	56.510
Current liabilities	19.280	18.532
<b>Total net assets</b>	<b>40.608</b>	<b>37.998</b>
Non-current liabilities	0	0.101
<b>Total equity</b>	<b>40.608</b>	<b>37.897</b>

Source: sportscotland Annual Report and Accounts 2014-15

Key movements include the estimated level of investments held within the National Lottery Distribution Fund, which is estimated to have increased from £53.9 million in 2013-14, to £58.68 million in 2014-15.

Grant commitments also increased from £14.7 million to £18.1 million in 2014-15.



## Financial Capacity

During 2014-15, Audit Scotland asked auditors to collect baseline data on finance departments and the control environment within individual bodies. As part of the audit we therefore gathered data, in line with the Audit Scotland questionnaire, on the:

- organisational structure and influence of the most senior finance professional
- financial strategy and sustainability
- budget monitoring and reporting
- the quality and finance capability of the operational finance function.

### Organisational structure

The Board's most senior finance officer is the Head of Finance. The current Head of Finance announced his intention to leave in December 2014, which allowed the Board to manage transitional arrangements following the recruitment of a new Head of Finance in June 2015.

The Head of Finance oversees the Finance Team, the Procurement Team, the Legal Team and the Investments Team.

The Head of Finance is not a member of the Senior Management Team, but works closely with the Director of Corporate Resources. In practice, where key finance papers are taken to the Board or Senior Management Team, the Head of Finance is invited to attend as a matter of course.

We are therefore satisfied that the Finance function within sportscotland has sufficient status at a strategic level to deliver expected financial management.

The Head of Finance and Financial Controller attend each Audit Committee meeting. They are also responsible for presenting sportscotland's annual accounts to the Board. The Director of Corporate Resources also attends each Audit Committee to respond to wider internal control and risk management findings.

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### Financial strategy and sustainability

The Board has recently agreed the Corporate Plan 2015-19, which is supported by a two year Business Plan.

The Corporate Plan drives future investment strategies and prioritisation. This process has been supported by the development of Investment Principles 2015-19, for the Board's key partnerships with local authorities and Sports Governing Bodies. This paper also sets out how **sportscotland** will measure the impact of investments.

The Business Plan sets out the key programmes over 2015-17 to deliver the outcomes within the Corporate Plan. It includes an assessment of budget requirements for each priority. Key areas for sportscotland investment into sports governing bodies and local authorities are agreed in principle for up to 4 years in line with the outcomes set out in the corporate plan as detailed financial planning is predicated on annual budgets from the Scottish government. Annual financial planning is always undertaken in the context of the 4 year corporate plan.

### Budget Monitoring and Reporting

Progress against budgets is monitored and reported monthly to internal management. Budget updates are provided to the Senior Management Team on a quarterly basis, which includes details of any variances and changes to original budgets.

On an annual basis, the Head of Finance presents the financial position to the Board. Additional external challenge is provided from the Scottish Government on programme funds.

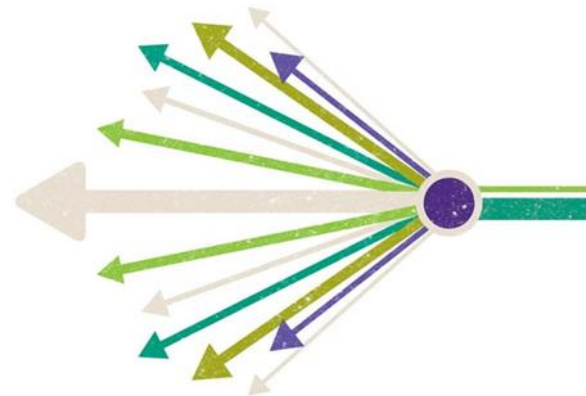
Within the Annual Review, **sportscotland** make links between the investments made and the outcomes delivered across the programme of activities. This process will be enhanced by the impact measures included within the Board's Investment Principles.

### Quality and finance capability of the operational finance function

The finance capability of sportscotland has not been reduced during the period of our appointment. There are three professionally qualified finance staff, within a team of five. The finance function includes a further eight members of staff, managing the grants investment programme, procurement and the national training centres at Inverclyde, Cumbrae and Glenmore Lodge.

The quality of the financial statements and supporting working papers remains good and we have not identified an increase in either the number and/or value of financial errors within unaudited accounts since 2011-12.

Other improvements include annual increases in **sportscotland's** Procurement Lite scoring process by Scotland Excel. The organisation has now achieved a score of 67%.





# Appendices

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# Appendix A





# Action Plan

Issue and Risk	Priority	Recommendation
<b>1. Classification of Hard and Soft Commitments</b>		
<p>During testing, we highlighted instances where capital grants had been incorrectly categorised as hard commitments, rather than soft commitments.</p> <p><b>Risk</b></p> <p>There is a risk of material misstatement in the financial statements</p>	High	<p>The Investments Team should ensure that a register of outstanding contracts is maintained to ensure that those not signed at the year end are identified as soft commitments.</p> <p><b>Management Response:</b></p> <p>We will ensure an appropriate review is completed at year end to ensure all commitments are correctly categorised.</p>
<b>2. Nil book value entries in the Fixed Asset Register</b>		
<p>Numerous items of plant and equipment are held on the fixed asset register at nil book values, having been fully depreciated.</p> <p><b>Risk</b></p> <p>The useful economic life accounting policy may be inaccurate, leading to a higher rate of depreciation within the financial statements.</p>	Low	<p>sportscotland should review the useful economic lives used for plant and equipment to ensure it is as accurate as possible. The finance team should also review nil book entries to ensure that the fixed asset register remains accurate and up to date.</p> <p><b>Management Response:</b></p> <p>We are reviewing our current asset software and will also conduct a review of the assets on file.</p>
<b>3. Suspense accounts</b>		
<p>During testing, we highlighted that a small number of suspense accounts were in use and not cleared at the year end.</p> <p><b>Risk</b></p> <p>There is a risk that errors may be made in the financial statements.</p>	Low	<p>The finance team should review the use of suspense accounts and ensure that they are cleared or reconciled as part of year end processes.</p> <p><b>Management response:</b></p> <p>A small number of low value suspense accounts had balances which straddled the year end, these have all where appropriate now been cleared.</p>



Issue and Risk	Priority	Recommendation
<b>4. Sustainability Report</b>		
<p>Due to the timing of the production of the Sustainability Report, the Annual Report does not currently reflect the 2014-15 disclosures</p> <p><b>Risk</b></p> <p>There is a risk that the financial statements are not fully compliant with the Financial Reporting Manual</p>	<p>Medium</p>	<p>If timing allows, the Annual Report should be updated to include a specific link to the 2014-15 Sustainability Report. In future years, the timing of the production of the report should be reviewed to ensure that disclosures fully meet the requirements of the FReM.</p> <p><b>Management Response:</b></p> <p>This report will be produced and entered onto the sportscotland website by the signing date of the accounts at the end of August.</p>
<b>5. National Fraud Initiative</b>		
<p>Responsibility for reviewing National Fraud Initiative (NFI) data matches currently rests with the Head of Finance. Around 200 matches were highlighted during the most recent exercise, which have not yet been processed.</p> <p><b>Risk</b></p> <p>There is a risk that the current process is inefficient, and does not allow independent review by a senior officer. The benefits from NFI may therefore not be fully realised.</p>	<p>Medium</p>	<p>The new Head of Finance should review the arrangements in place to process NFI matches to ensure that they are reviewed at an appropriate level and within expected timescales.</p> <p><b>Management Response:</b></p> <p>Agreed</p>

# Appendix B





# Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

	Per Audit plan £	Actual fees £
<b>sportscotland Group audit</b>	26,520	26, 520
<b>sportscotland Lottery Fund</b>	20,400	20,400
<b>Total audit fees</b>	<b>46,925</b>	<b>46,925</b>

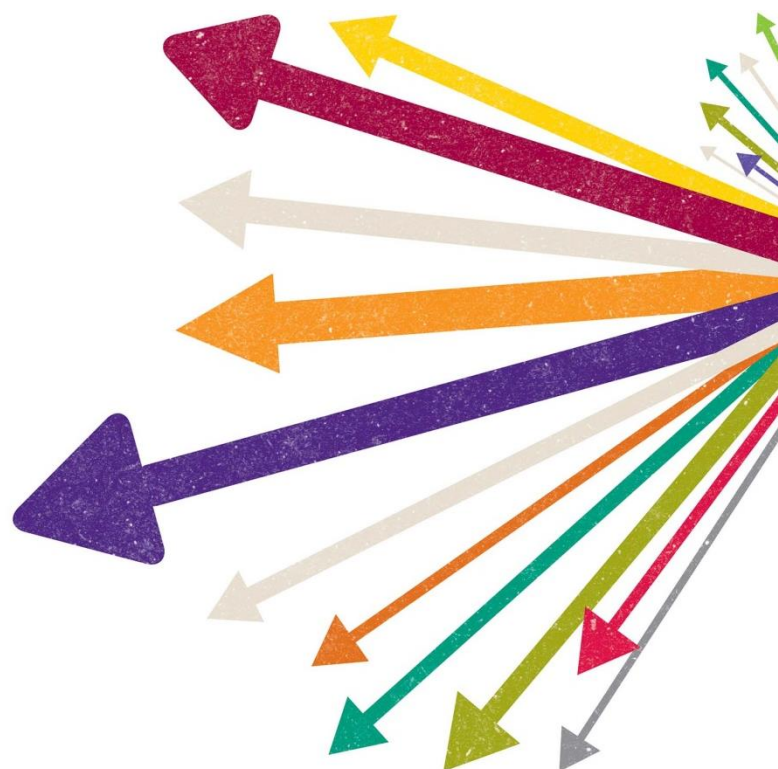
## Fees for other services

Service	Fees £
Audit of Trust Company, performed by another Grant Thornton audit team	13,030

## Independence and ethics

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.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.





# Appendix C





# Our review of Trust Company audit findings

The financial results of the Scottish Sports Council Trust Company (the Trust Company) are consolidated into the sportscotland Group financial statements. ISA (UK&I) 600 requires that as group auditors, we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The audit of the Trust Company is carried out under a separate engagement by a separate engagement team with Grant Thornton UK LLP. The Audit Findings Report has been reported to the Trust Company Audit Committee. The findings from the audit are detailed below. Overall, we were provided with sufficient assurance and the audit work did not identify any further risks or issues.

## 1. Findings from Significant Risks

	Risks identified in the audit plan	Commentary	Group impact
1.	<p><b>Improper revenue recognition</b></p> <ul style="list-style-type: none"> <li>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</li> </ul>	<ul style="list-style-type: none"> <li>We undertook a review of revenue recognition policies, we performed revenue cut off testing and we performed analytical procedures and performed debtor existence and deferred income testing (see below).</li> <li>As revenue items do not have one consistent attribute we selected a statistical sample of items and tested them to cash receipt, we also performed testing of revenue journals. No issues were noted from this testing.</li> </ul>	Noted
2.	<ul style="list-style-type: none"> <li>Management override of controls</li> <li>Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</li> </ul>	<ul style="list-style-type: none"> <li>We considered management estimates, judgements and decisions in material areas, such as assumptions in respect of bad debt provisions and depreciation policy, we found no significant issues.</li> <li>We obtained a full listing of all journal entries in the year and using specialist audit software we selected a sample to trace to supporting documentation. This testing was performed by the sportscotland audit team and reviewed by us. No significant issues were noted from this testing.</li> </ul>	Noted

## 2. Findings from Reasonably Possible Risks

	Risks identified in the audit plan	Commentary	Group impact
1.	<p><b>Revenue existence and deferred income completeness</b></p> <ul style="list-style-type: none"> <li>This is a key audit risk for any trading company due to the volume of transactions and the material nature of the debtors balance.</li> </ul>	<p><b>Trade Debtors</b></p> <ul style="list-style-type: none"> <li>We selected a statistical sample of year end debtor balances and traced these to post year end cash receipts and to sales invoice.</li> <li>We agreed the debtor balance in the financial statements to the debtors listing and reviewed debtor ageing.</li> <li>From our debtor testing at Glenmore we noted a balance of £4,635 where a credit note for a cancelled booking had been allocated to a new account code instead of against the existing account code. This has since been corrected.</li> <li>In response to the difference above we performed a review of a further sample of credit balances and found another example of this issue relating to a debtor balance of £531. These errors have no net impact on the financial statements, however this could cause credit control issues. Management are aware of this issue and steps are being taken to remedy this.</li> <li>We did not highlight any additional bad debts from our testing. We did note a balance of £21k that has been receivable from North Glasgow college for over 6 months which is deemed to be recoverable by management.</li> </ul> <p><b>Deferred Income</b></p> <ul style="list-style-type: none"> <li>We obtained management's computation of deferred income at 31 March 2015 and ensured management have correctly identified and removed any future income from this balance, given such income does not meet the recognition criteria for revenue under the SORP.</li> <li>No issues were raised from our procedures.</li> </ul>	Noted and group accounts adjusted.
2.	<p><b>Creditors completeness</b></p> <ul style="list-style-type: none"> <li>We identified a risk that costs may be understated due to high transaction volumes and budget pressures.</li> </ul>	<p>We undertook the following work in this area:</p> <ul style="list-style-type: none"> <li>performed a review of post year end purchase invoices and post year end bank payments to identify any potential unrecorded liabilities as at 31 March 2015</li> <li>review of purchase cut off</li> <li>review of accruals for completeness</li> </ul> <p>We noted no issues from our testing and found no material unrecorded liabilities.</p>	Noted



### 3. Findings from Other Risk Areas

	Risks not identified in the audit plan	Commentary	Group impact
1.	<p><b>Property, plant and equipment impairment</b></p> <ul style="list-style-type: none"> <li>The impairment to property at Inverclyde and Glenmore is not a routine transaction.</li> </ul>	<p><b>Impairment</b></p> <ul style="list-style-type: none"> <li>Land and buildings at Inverclyde and Glenmore were re valued in the year resulting in an impairment being charged.</li> <li>We reviewed the valuation report and agreed with the conclusions reached.</li> <li>Under the Charities SORP 2005, impairment losses of assets held for the charity’s own use (i.e. not investments) should be regarded as additional depreciation of the impaired asset and included appropriately in the resources expended section of the SOFA. We have processed an adjustment to treat the impairment accordingly, the adjustment did not effect the net position, it applied to disclosures and presentation only.</li> </ul> <p><b>Depreciation</b></p> <ul style="list-style-type: none"> <li>From our review we noted that no depreciation had been charged during the year for both Inverclyde and Glenmore prior to the impairment. We have proposed an audit adjustment so that depreciation is charged and the impairment is adjusted accordingly.</li> <li>From our depreciation testing we noted that the Assetware software was applying various rates to depreciate land and buildings. The listing was reviewed manually and an adjustment was processed to reduce the depreciation charged to bring the treatment in line with accounting policy (land and buildings depreciated over 50 year life).</li> </ul> <p><b>Lease Disclosures</b></p> <ul style="list-style-type: none"> <li>The note to the financial statements for operating leases included the total amount payable opposed to the amount for a single year, we ensured that the disclosure was updated in the latest draft of the financial statements.</li> </ul>	Noted and group accounts adjusted.



# Appendix D





# Independent Auditors Report

## **Independent auditor's report to the members of the Scottish Sports Council, the Auditor General for Scotland and the Scottish Parliament**

We have audited the financial statements of the Scottish Sports Council (the Council) for the year ended 31 March 2015 under the 1972 Royal Charter. The financial statements comprise Statement of Financial Position, the Statement of Comprehensive Net Expenditure, the Statement of Cash Flow, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2014-15 Government Financial Reporting Manual (the 2014-15 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of Accountable Officer and auditor**

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge.

acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view in accordance with the 1972 Royal Charter and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2015 and of its net operating cost for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014-15 FReM; and
- have been prepared in accordance with the requirements of the 1972 Royal Charter and directions made thereunder by the Scottish Ministers.



### **Opinion on regularity**

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

### **Opinion on other prescribed matters**

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you 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 Governance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

Joanne Brown, (for and on behalf of Grant Thornton UK LLP)

7 Exchange Crescent

Edinburgh

EH3 8AN

26 August 2015

# Appendix E





# sportscotland Letter of Representation

Grant Thornton UK LLP  
7 Exchange Crescent  
Edinburgh  
EH3 8AN

Date- Same date as accounts

Dear Sirs

## **The Scottish Sports Council**

### **Financial Statements for the Year Ended 31 March 2015**

This representation letter is provided in connection with the audit of the financial statements of the Scottish Sports Council (the Council) for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000, the 1972 Royal Charter, the Government Financial Reporting Manual (the FReM) and the Scottish Public Finance Manual (SPFM).

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### Financial Statements

- i. We have fulfilled our responsibilities, as set out in 1972 Royal Charter for the preparation of the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000, the FReM and International Financial Reporting Standards. In particular the financial statements give a true and fair view of the Council's state of affairs in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- iv. We are satisfied that the material judgments used in the preparation of financial statements are soundly based, in accordance with International Financial Reporting Standards and the FReM, and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- v. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council have been assigned, pledged or mortgaged
  - c. there are no material prior year changes or credits, nor exceptional or non-recurring items requiring separate disclosure.



- vi. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the FReM and International Financial Reporting Standards.
- vii. All events subsequent to the date of the financial statements and for which the FReM and International Financial Reporting Standards requires adjustment or disclosure have been adjusted or disclosed.
- viii. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Annual Audit Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- x. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the FReM.
- xi. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements. We are satisfied with the treatment of the revaluation of land and buildings.

**Information Provided**

- xii. We have provided you with:
  - a. access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.
- xiii. We have confirmed there were no deficiencies in internal control of which management is aware
- xiv. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xv. We have considered the risk that the financial statements may be materially misstated as a result of fraud and am not aware of any such fraud or misstatement.
- xvi. We are not aware of any fraud or suspected fraud affecting the entity involving:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.

- xvii. We have confirmed we have no knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xviii. We have confirmed to you there are no known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xix. We have disclosed to you the identity of all of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xx. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

**Annual Report**

- xxi. The disclosures within the Annual Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

**Annual Governance Statement**

- xxii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Approval**

The approval of this letter of representation was minuted by the **sportscotland** Board at its meeting on **26 August 2015**.

Yours faithfully

<Name and title>

Date:

Signed on behalf of the Board

# sportscotland Lottery Fund

## Letter of Representation

Grant Thornton UK LLP  
7 Exchange Crescent  
Edinburgh  
EH3 8AN

Date- Same date as accounts

Dear Sirs

### **The Scottish Sports Council Lottery Fund**

#### **Financial Statements for the Year Ended 31 March 2015**

This representation letter is provided in connection with the audit of the financial statements of the Scottish Sports Council Lottery Fund (the Lottery Fund) for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000, the National Lottery etc Act 1993, the Government Financial Reporting Manual (the FReM) and the Scottish Public Finance Manual (SPFM).

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### Financial Statements

- i. We have fulfilled our responsibilities, as set out in National Lottery etc Act 1993 for the preparation of the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000, the FReM and International Financial Reporting Standards. In particular the financial statements give a true and fair view of the Lottery Fund's state of affairs in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Lottery Fund and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- iv. We are satisfied that the material judgments used in the preparation of financial statements are soundly based, in accordance with International Financial Reporting Standards and the FReM, and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- v. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Lottery Fund have been assigned, pledged or mortgaged
  - c. there are no material prior year changes or credits, nor exceptional or non-recurring items requiring separate disclosure.



- vi. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the FReM and International Financial Reporting Standards.
- vii. All events subsequent to the date of the financial statements and for which the FReM and International Financial Reporting Standards requires adjustment or disclosure have been adjusted or disclosed.
- viii. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Annual Audit Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- x. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the FReM.
- xi. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements. We are satisfied with the treatment of the revaluation of land and buildings.

**Information Provided**

- xii. We have provided you with:
  - a. access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.
- xiii. We have confirmed there were no deficiencies in internal control of which management is aware
- xiv. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xv. We have considered the risk that the financial statements may be materially misstated as a result of fraud and am not aware of any such fraud or misstatement.
- xvi. We are not aware of any fraud or suspected fraud affecting the entity involving:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.

- xvii. We have confirmed we have no knowledge of any allegations of fraud, or suspected fraud, affecting the Lottery Fund's financial statements communicated by employees, former employees, regulators or others.
- xviii. We have confirmed to you there are no known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xix. We have disclosed to you the identity of all of the Lottery Fund's related parties and all the related party relationships and transactions of which we are aware.
- xx. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

**Annual Report**

- xxi. The disclosures within the Annual Report fairly reflect our understanding of the Lottery Fund's financial and operating performance over the period covered by the financial statements.

**Annual Governance Statement**

- xxii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Lottery Fund's risk assurance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Approval**

The approval of this letter of representation was minuted by the **sportscotland** Board on behalf of the Lottery Fund at its meeting on **26 August 2015**.

Yours faithfully

<Name and title>

Date:

Signed on behalf of the Board



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