



sportscotland Group and sportscotland Lottery Fund

2016/17 Annual Audit Report



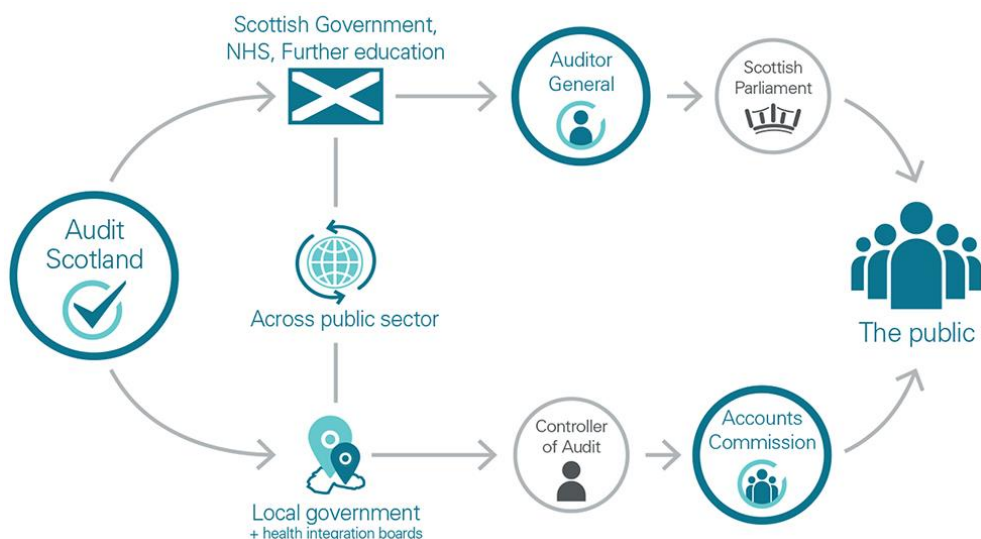
Prepared for sportscotland Board and the Auditor General for Scotland

28 August 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2016/17 financial statements	7
Part 2 Financial management	11
Part 3 Financial sustainability	15
Part 4 Governance and transparency	18
Part 5 Value for money	21
Appendix 1 Action plan 2016/17	23
Appendix 2 Significant audit risks identified during planning	26
Appendix 3 Summary of unadjusted errors	30
Appendix 4 Summary of national performance reports 2016/17	31

Key messages

Audit of the 2016/17 financial statements

- 1 The financial statements of sportscotland Group and sportscotland Lottery Fund give a true and fair view of the financial position and their expenditure and income.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 3 The other information in the annual report and accounts was consistent with the financial statements and prepared in accordance with legal requirements.

Financial management

- 4 sportscotland Group and sportscotland Lottery Fund have effective arrangements in place for financial management.
- 5 No significant internal control weaknesses were identified during the audit.
- 6 sportscotland is participating in the National Fraud Initiative and is engaging well by investigating the recommended matches.

Financial sustainability

- 7 We concluded that sportscotland Group and sportscotland Lottery Fund have adequate financial planning arrangements in place.
- 8 With increased uncertainty over funding and income streams for 2018/19 and beyond, management should continue to develop options for balancing its budget in the medium to longer term.

Governance and transparency

- 9 sportscotland Group and sportscotland Lottery Fund have effective arrangements in place to support governance and accountability.
- 10 Effective scrutiny and challenge is in place over policy decisions, service performance and programme management.

Value for money

- 11 sportscotland has a performance management framework in place which requires further development to support and demonstrate the achievement of value for money and continuous improvement in the way services are delivered.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of sportscotland Group and sportscotland Lottery Fund.
2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Audit and Risk Committee. This report presents:
 - findings from our audit of the annual report and accounts and
 - our review of the wider dimensions set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:
 - an interim audit of sportscotland Group and sportscotland Lottery Fund main financial systems and governance arrangements.
 - an audit of sportscotland Group and sportscotland Lottery Fund 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

4. sportscotland Group and sportscotland Lottery Fund are responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the annual report and accounts, and for establishing effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.
5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance and, guided by the auditing profession's ethical guidance.
6. These responsibilities include giving independent opinions on the financial statements, regularity, the remuneration and staff report, the performance report and the governance statement. We also review and report on the arrangements within sportscotland Group and sportscotland Lottery Fund to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.
7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
8. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1 \(page 23\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
9. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan. We will discuss with management the delays and additional audit input required due to incomplete financial statements and potential impact on the audit fee.
11. This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
12. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2016/17 financial statements



Main judgements

The financial statements of sportscotland Group and sportscotland Lottery Fund for 2016/17 give a true and fair view of the state of those bodies' affairs and of their net expenditure for the year.

We gave an unqualified opinion on regularity of sportscotland Group and sportscotland Lottery Fund expenditure and income and on the remuneration and staff report, performance report and governance statement.

Unqualified audit opinions

- 13.** The annual reports and accounts for the year ended 31 March 2017 were approved by the board on 23 August 2017. We reported, within our independent auditor's report:
- an unqualified opinion on the financial statements;
 - an unqualified opinion on regularity of expenditure and income; and
 - an unqualified audit opinion on the remuneration and staff report, performance report and governance statement.
- 14.** Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Submission of annual report and accounts for audit

- 15.** We received the unaudited financial statements on 15 May 2017, in line with our agreed audit timetable, however, numerous sections of the working papers provided with the unaudited financial statements were incomplete, most sections of the narrative performance report and remuneration and staff report had still to be updated, and many of the notes to the accounts were incomplete.
- 16.** Draft accounts which were more advanced, including group figures, were received on 24 May, however, these still included notes and narrative sections of the financial statements which were incomplete. During the course of the audit 12 versions of the main group accounts and 9 versions of the lottery accounts were presented to us. The result has been significant delays and inefficiency in progressing the audit. Further consideration should be given to the timing of the external audit and completeness of information available in future years.

Recommendation 1

The timetable for the audit of the financial statements should be reviewed to ensure all significant information including areas such as valuations, draft Trust Company accounts, Remuneration Report and Notes to the accounts are available prior to the agreed audit start date.

Whole of Government Accounts

17. In accordance with the WGA guidance we will complete the required assurance statement for submission to the National Audit Office (NAO) by the 30 September 2017 deadline.

Risk of material misstatement

18. [Appendix 2 \(page 26\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

Materiality

19. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.
20. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
21. On receipt of the annual report and accounts we reviewed our original materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017, based on the audited accounts for 2015/16.	£591,000 LF £305,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 20% of overall materiality.	£118,000 LF £61,000
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality.	£6,000 LF £3,000

Evaluation of misstatements

- 22.** Adjustments have been made for two instances of material misstatement. These were in relation to accounting for revaluations of investment property, and to disclosure of soft grant commitments. These and other significant findings are detailed at [Exhibit 3](#). Immaterial misstatements which exceeded our reporting threshold have been summarised at [Appendix 3 \(page 30\)](#).
- 23.** It is our responsibility to request that all misstatements are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officer and materiality levels. Management do not propose to adjust for the items at [Appendix 3](#) as the amounts are not considered material in the context of the financial statements. We agree that these amounts are immaterial.

Significant findings from the audit

- 24.** International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 23\)](#) has been included.

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Staff Costs reconciliation</p> <p>There was an unexplained difference of £29,557 on the staff costs reconciliation between staff costs per the payroll system and the general ledger, indicating that staff costs per the accounts were understated by the amount of the difference.</p>	<p>Explanation provided was that some items which go through the payroll system will have been posted to non staff cost ledger codes. Correction would require numerous small adjustments to a number of expenditure account lines, with no overall impact on net expenditure.</p> <p>Suitable wording included within ISA 580 Letter of representations to reflect this.</p> <p>Recommendation 5</p> <p>The payroll system should be reconciled with the financial ledger on a regular basis with differences identified and accounted for.</p>
<p>2. Non current asset verification</p> <p>Formal verification checks on completeness of recording, and on existence, of non current assets appear to have lapsed.</p>	<p>Recommendation 2</p> <p>Reintroduce formal verification checks to confirm completeness, and existence, of non current assets recorded. This should be in conjunction with transfer of asset records to fixed asset register module within financial ledger system.</p> <p>Action Plan (Appendix 1, point 2)</p>
<p>3. Non current asset impairment</p> <p>There is no formal process in place for impairment reviews to be carried out on assets.</p>	<p>Recommendation 3</p> <p>Introduce a formal documented process for impairment review of assets.</p> <p>Action Plan (Appendix 1, point 3)</p>

Issue	Resolution
<p>4. Non current asset depreciation</p> <p>From sample testing of depreciation calculations, we noted that depreciation was not being charged consistently in accordance with accounting policies. The potential errors noted were not significant.</p>	<p>Recommendation 4</p> <p>Depreciation to be calculated consistently in accordance with accounting policies. Transfer of asset records to an electronic asset register will help to facilitate this.</p> <p>Action Plan (Appendix 1, point 4)</p>
<p>5. Revaluation of Investment Property</p> <p>Gains / losses on the revaluation of investment property have been wrongly charged to the revaluation reserve. This required an adjustment to be made of £1.1m in the prior year and £300k in the current year with a net impact of £800k. Financial Reporting Standard 102 requires that the revaluation of investment property is charged directly to the general fund.</p>	<p>Adjusted in final version of accounts.</p>
<p>6. Soft grant commitments</p> <p>Soft grant commitments disclosed in notes to accounts were found to be understated by £1,868,736.</p>	<p>Note to accounts amended accordingly.</p>

Source: Audit Scotland

Other findings

- 25.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.

Part 2

Financial management



Main judgements

sportscotland Group and sportscotland Lottery Fund had effective overall management of the 2016/17 budget.

Systems of internal control operated effectively in 2016/17 with scope for improvements in some areas.

There was satisfactory engagement with the NFI exercise at this early stage.

Finance capacity and succession planning should be reviewed to ensure the appropriate skills are available to support sportscotland Group and sportscotland Lottery Fund during the significant financial challenges ahead.

Financial performance in 2016/17

26. The main financial objectives for sportscotland Group and sportscotland Lottery Fund are, respectively, to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers, and that payment of awards and associated administration costs are within the amounts called down from the National Lottery Distribution Fund (NLDF).
27. sportscotland Group has reported an expenditure outturn of £33.356 million, before deducting gains of £4.609m from revaluation/disposal of assets, with an overspend of £0.361 million against total revenue budget of £32.995 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#).

Exhibit 4

Performance against DEL in 2016/17

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	29.950	29.950	33.158	3.208
Active Places and Cashback			(1.800)	(1.800)
Depn./Amortisation			<u>(0.743)</u>	<u>(0.743)</u>
			30.615	0.665
Capital DEL	9.800	9.800	12.373	2.573
Total DEL	39.750	39.750	45.531	5.781

Source: sportscotland

28. It was agreed with Scottish Government that £7.8m of capital DEL could be carried forward from 2015/16 into 2016/17 to give a balance of £9.8m. In relation to resource overspend, £1.8m of that derives from expenditure on Active Places and Cashback and £0.743m relates to depreciation and amortisation, with the balance being accounted for by timing differences and minor carry forwards. The capital overspend of £2.6m will be funded by money received from North Ayrshire Council for future pitch use and golf course support.
29. sportscotland Lottery Fund has reported an expenditure outturn of £30.104 million (2015/16:£30.595m), income of £27.109 million (2015/16:£31.330m) and a balance called down from NLDF of £34.123 million (2015/16: £28.850m). The reduction in income reflects a £4.8m (15%) fall in proceeds from National Lottery Fund.
30. It is recognised that there are significant finance challenges ahead with a decline in income levels forecast to continue. Finance capacity and skills should be reviewed to ensure that they are sufficient to meet future demands. This should be carried out in conjunction with overall workforce planning and succession planning reviews.

Internal controls

31. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that sportscotland Group and sportscotland Lottery Fund has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
32. Our findings were included in an interim audit report presented to the Audit Committee on 27 April 2017. We concluded that the controls were operating effectively. No significant internal control weaknesses were identified during the audit which could affect sportscotland Group and sportscotland Lottery Fund's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

33. In our interim report, we noted that fully documented financial regulations were not available, as these were in the process of being drafted to reflect the control structures and accounting requirements of new systems being implemented.

Recommendation 6

Work on the production of financial regulations and procedures should be completed as a priority to reduce the risk of staff not carrying out procedures consistently in accordance with system requirements, and of errors or omissions occurring in the processing of transactions and the operation of financial controls. This would also help to reduce the impact of single person dependency with the finance team.

Budgetary processes

34. We also reviewed sportscotland Group and sportscotland Lottery Fund's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.
35. We concluded that sportscotland Group and sportscotland Lottery Fund has strong budgetary monitoring and control arrangements that allow both members and officers to carry out effective scrutiny of its finances.

Prevention and detection of fraud and irregularity

36. We assessed sportscotland Group and sportscotland Lottery Fund's arrangements for the prevention and detection of fraud. Our audit work covered a number of areas such as whistleblowing and review of the counter fraud strategy.
37. We concluded that sportscotland Group and sportscotland Lottery Fund is proactive in promoting fraud awareness and had appropriate and adequate arrangements in place for fraud detection and prevention during 2016/17.

National Fraud Initiative

38. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error. The following exhibit summarises progress on the investigation of matches as at June 2017. ([Exhibit 5](#)).

Exhibit 5

Total number of matches



140

Number recommended for investigation



19

Completed/closed investigations



5

Source: NFI Web Portal

39. Total matches were 140, with only 19 of these being recommended for investigation. 34 cases had been processed by 15 June 2017, with five of these being from the recommended group. No frauds have been identified in the process to date, however, the key contact has confirmed that the circumstances of any frauds identified would be reviewed as a matter of course, and relevant improvements made in controls.
40. Satisfactory progress has been made to date in investigating matches. Outcomes will be reported to Audit and Risk Committee at a future date.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

41. We have reviewed the arrangements in place to maintain standards of conduct including the Members' Code of Conduct, which complies with the Ethical Standards in Public Life etc. (Scotland) Act 2000. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.
42. Based on our review of the evidence, we concluded that sportscotland Group and sportscotland Lottery Fund has appropriate arrangements in place for the prevention and detection of bribery corruption. We are not aware of any specific issues that we need to bring to your attention.

Part 3

Financial sustainability



Main judgements

sportscotland Group and sportscotland Lottery Fund have adequate financial planning arrangements in place based on the Corporate Plan.

It will remain a significant challenge for sportscotland Group and sportscotland Lottery Fund to meet its financial targets in 2017/18.

With increased uncertainty over funding and income streams for 2018/19 and beyond, management should continue to develop options for balancing its budget in the medium to longer term.

Financial planning

43. sportscotland Group and sportscotland Lottery Fund approved its proposed 2017/18 budget in April, 2017. The proposed budget is based on planned expenditure of £65.1m, which is a reduction of £12.15m (16%) on the 2016/17 original budget.
44. The planned reduction in expenditure includes as its main component a £7.53m reduction in the budget for national and regional capital projects.
45. Income has been projected on a Pessimistic/Mid-Point/Optimistic basis at £56.5m/£58.1m/£59.7m, and includes additional Scottish Government funding, for one year only, of £2m to be invested in sports governing bodies. In addition, it has been agreed to draw down £7m from the balance held in the National Lottery Distribution Fund to meet the identified funding gap. The resulting range is from a £1.5m budget shortfall to a £1.6m budget surplus.
46. The 2017/18 budget, whilst projecting a near break even position, still presents a challenge to management in achieving that target. Management have identified key practices to be applied in managing the 2017/18 budget;
 - Close scrutiny of all budget variations;
 - Under spends to be managed and reallocated centrally; and
 - Over spends and new requests require clear rationale and SMT approval.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

47. 2018/19 and beyond will present increased uncertainty over funding and income streams. To address this, management are considering options for balancing income and expenditure in the medium term. In the shorter term a number of areas have been identified where further adjustments to the budget might be possible including:
- review of staffing structure across the organisation
 - capping of Sports Facilities Fund budget
 - proposals to rationalise and reduce spend on regional offices
 - encouraging Scottish Government to reinstate capital funding
 - considering how longer term programmes coming to an end will be taken forward.

2016/17 financial position

48. The Statement of Financial Position summarises what is owned and owed by sportscotland Group and sportscotland Lottery Fund. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.
49. The financial statements show that sportscotland Group has net assets of £13.23 million, an increase of £3.012 million attributable to increased valuations for property assets, offset by an increase of £10.442m in the pension liability. The parent body financial statements present a net liability position of £9.283m (2016: Net Assets £2.047m) due to the adverse movement in the pension liability at year end. This position has been discussed with Scottish Government and suitable assurances have been obtained by management.
50. The financial statements for sportscotland Lottery Fund disclose net assets of £38.348m (2016: £41.343m).

Medium to long term financial planning

51. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.
52. We recognise that the sportscotland Group is mainly funded from the Scottish Government budget allocation/ through Grant-in-aid and this is set on a year-on-year basis by the Scottish Government. This should not preclude sportscotland Group from preparing medium to long term financial plans based on sensitivity analysis and scenario planning for possible budget changes. Medium term plans with a number of options are in place to support the 2018/19 budget however longer term financial plans have not been developed. Development of longer term plans aligned with workforce plans and the Corporate Plan would allow sportscotland to be prepared for and aware of the impact of further changes in funding. As the Scottish Government's Grant-in Aid funding has reduced in recent years and is forecast to decrease further significant financial challenges lie ahead.
53. There is also recognition that the National Lottery Funding income has also been reducing in recent years.

54. In response to the decline in funding for the two main income streams sportscotland established a Financial Resources Committee in May 2017 to consider ways of boosting existing income streams. We will review the activity and impact of this Committee in our 2017/18 planning activity.
55. During 2016-17 sportscotland undertook a major capital development project to rebuild the Inverclyde national sports training centre through £12m of capital investment. We note however that for 2017/18 that no capital funding has been awarded. Consideration should be given to developing more detailed capital and maintenance plans.

Recommendation 7

sportscotland Group and Lottery Fund budgets should continue to be monitored and revised on a regular basis to achieve financial balance and support long term financial sustainability.

Recommendation 8

Longer term financial projections should be developed to enable sportscotland to respond to future changes in funding.

Recommendation 9

A comprehensive capital plan is developed to support delivery of the Corporate Plan including maintenance requirements across all property, plant and equipment.

Part 4

Governance and transparency



Main judgements

sportscotland Group and sportscotland Lottery Fund have effective governance arrangements in place, and these are being reviewed and updated annually to maintain focus and effectiveness. Effective scrutiny and challenge is in place over policy decisions, service performance and programme management.

Internal audit operates in accordance with the Public Sector Internal Audit Standards.

sportscotland Group and sportscotland Lottery Fund are open and transparent in the way they conduct business but with some scope for improvement. Board meetings are not open to the public. Minutes are published on the sportscotland website but board and committee papers and committee meeting minutes are not publicly available. With increasing public expectations for more openness in the conduct of public business, sportscotland needs to keep this area under review and consider whether there is a need to improve transparency.

Governance arrangements

56. As part of the wider review of governance arrangements across the public sector, we completed a follow-up of our 'Role of Boards' national report, published in September 2010. This involved review of documentation, discussions with key officers and attendance at Board and Audit and Risk Committee meetings. We concluded that, overall, sportscotland has appropriate arrangements in place that support good governance, accountability and scrutiny. Our main findings were:

- The corporate governance framework is based on the full sportscotland council board including executive members, supported by four committees – Ethics, Audit and Risk, Remuneration and, from April 2017, Financial Resources. In response to an earlier internal audit review of governance, the terms of reference of the board and its committees were reviewed in April 2016 and the board agreed that these reviews would be conducted annually going forward. The April 2017 review resulted in the Remuneration Committee having succession planning added to its remit, and in the approval of the remit for the new Financial Resources Committee (see Financial Sustainability page 15).
- Board members are all highly qualified and experienced individuals with backgrounds in sport, accounting, legal, academia and business. Board members are fully involved in approving strategic plans, setting and monitoring of budgets and are updated on negotiations with Scottish Government over funding, etc. Identified funding challenges are fully set out for board consideration and for approval of management remedial

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

measures. This has been particularly evident during 2016/17 when it has been necessary to address the significant reduction in lottery funding available.

- Appropriate induction and ongoing training is provided to Board members. A comprehensive Board Member Induction Guidance Pack is issued to new board members and an introductory presentation is delivered by the Director of Corporate Services.
- An area of good practice we identified was that, from October 2016, board members have attended pre agenda strategic discussions, with technical presentations and facilitated Q&A sessions, on the evenings prior to scheduled board meetings. The intention is to make the business meeting on the day following more productive and effective. Any contentious or complex issues will have been explored in a more informal setting, so that more informed decisions can be taken. The impact should be that more issues can be addressed at the full board meeting, and more clarity demonstrated in relation to decisions made.

57. Governance and accountability arrangements are considered to be appropriate and adequate, and can be relied upon to support good governance and accountability.

The Governance Statement

58. Under the Treasury's Financial Reporting Manual (FReM), sportscotland Group and sportscotland Lottery Fund must prepare an annual governance statement within the Annual Report and Accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

59. The Chief Executive's review of the effectiveness of internal control systems is informed by the work of Internal Audit and by comments from the external auditors, however, the principal source of assurance is via certificates of assurance obtained from each executive director. We have reviewed these assurances and have confirmed that no internal controls issues requiring disclosure were raised.

60. The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. We concluded that the Governance Statement 2016/17 complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed presents a comprehensive picture of governance arrangements and matters.

Internal audit

61. Internal audit provides sportscotland Group and sportscotland Lottery Fund and the Accountable Officer with independent assurance on sportscotland Group and sportscotland Lottery Fund's overall risk management, internal control and corporate governance processes.

62. The internal audit function is carried out by BDO LLP. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

63. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we did not place formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work, however, we considered internal audit report findings as part of our wider dimension work.

Risk management

64. We reviewed the risk management arrangements in place at sportscotland. The Board approved an updated Risk Management Framework in April 2016. The Framework is reviewed on a regular basis using evidence gathered from internal audit recommendations, internal consultation with staff and points raised by the Audit & Risk Committee. There are documented Risk Management Processes and a Corporate Risk Register.
65. Portfolio groups are responsible for reviewing their own risk register on a quarterly basis and relevant risks are escalated to the Corporate Risk Register. These subsidiary risk registers are part of Covalent, a workflow and performance management system which prompts relevant individuals to update quarterly.
66. The Corporate Risk Register is reviewed by the sportscotland Board annually with the Audit Committee reviewing the register every six months. The outcomes of these meetings are the provision of a control strategy/mitigation for each of the significant risks. The highest level of risks are those that are still 'red' after mitigating actions have been put in place, and these risks are the focus of the Senior Management Team and Board's attention.
67. We consider risk management arrangements to be effective and appropriate.

Transparency

68. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources.
69. Meetings of the Board and its committees are not held in public due mainly to the sensitive nature of much of their business. Whilst minutes from Board meetings are available on the organisation's web site, board agendas, supporting papers and reports, and minutes from committees are not available to the public. sportscotland acknowledges that making these publicly available would increase transparency, but currently do not consider this advisable due to the sensitive nature of much of their business.
70. Overall, we concluded that the board conducts its business in an open and transparent manner but we believe that there are some areas where the board could improve current arrangements.

Recommendation 10

Board and committee meetings are not open to the public and papers and minutes from meetings are not available publicly. With increasing public expectations for more openness in the conduct of public business, sportscotland needs to keep this area under review and consider whether there is a need to improve transparency.

Part 5

Value for money



Main judgements

sportscotland Group and sportscotland Lottery Fund has a performance management framework in place. Further work is required to align sportscotland performance measures with the Scottish Government Health and Wellbeing Directorate objectives to provide assurance that funding awarded is delivering the desired outcomes and represents value for money.

There is recognition that performance information needs more focus on achieving outcomes with supporting trend information presented.

Performance management

71. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with sportscotland Group and sportscotland Lottery Fund, agree to undertake local work in this area.
72. The performance of sportscotland Group and sportscotland Lottery Fund is monitored by the board against a number of performance targets which support the delivery of the Scottish Government's national performance framework. These targets and their trajectories (plans) are set out in sportscotland Group and sportscotland Lottery Fund Corporate Plan.
73. The board is kept informed of performance across all areas of activity, we attend meetings and review papers received by members to gain an insight into how well performance is scrutinised.
74. The impact of improvement in sport on communities is assessed through levels of participation and progression. A total of 16 impact measures are reported on to measure the difference being made. It is recognised that more in-depth indicators and trend analysis over a longer period of time is needed to provide more meaningful performance information.
75. We concluded that sportscotland has a performance management framework in place which requires further development to support and demonstrate the achievement of value for money and continuous improvement in the way services are delivered.

Value for money is concerned with using resources effectively and continually improving services.

Performance trends

76. We reviewed the main performance indicators used by sportscotland and have summarised these in [Exhibit 2](#). A target of 200 community hubs has been set to achieve 200 by 2020, good progress has been made in 2016-17 in achieving this with an increase of 24 new hubs being established.

Exhibit 2

Key performance indicators – trend analysis

	2015/16	2016/17
Distinct participants in Active schools	● 275,298	● 289,818
Playing Club members in Supported Clubs	● 193,043	● 259,037
Community Sport Hubs	● 155	● 179

Source: sportscotland Group performance information included in 2016-17 Annual Report and Accounts

National performance audit reports

77. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, we published a number of reports which are of direct interest to the board. These are outlined in [Appendix 4](#) accompanying this report.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
8	<p>1. Incomplete unaudited financial statements and working papers</p> <p>Initial draft accounts and working papers were incomplete.</p> <p>Risk</p> <p>Audit certification not completed within deadline.</p>	<p>Recommendation 1</p> <p>Audit of the financial statements should not commence until significant information, such as valuations, draft Trust Company accounts, Remuneration Report, Notes to the accounts, etc., are available and have been incorporated.</p>	<p>We will review the timetable with Audit Scotland to ensure key documents such as the draft Trust Accounts are completed prior to start of audit.</p> <p>Head of Finance November 2017</p>
9	<p>2. Non current asset verification</p> <p>Formal verification checks on completeness of recording, and on existence, of non current assets appear to have lapsed.</p> <p>Risk</p> <p>Errors or omissions could occur in the recording of assets, or misappropriations of assets could go undetected.</p>	<p>Recommendation 2</p> <p>Reintroduce formal verification checks to confirm completeness, and existence, of non current assets recorded. This should be in conjunction with transfer of asset records to a fixed asset register module within financial ledger system.</p>	<p>We agree that this will be reintroduced and are currently looking at a proposed solution from the finance system provider to satisfy this requirement.</p> <p>Financial Accountant October 2017</p>
9	<p>3. Non current asset impairment</p> <p>There is no formal process in place for non current asset impairment reviews to be carried out.</p> <p>Risk</p> <p>Value of assets overstated in balance sheet.</p>	<p>Recommendation 3</p> <p>Introduce a formal documented process for impairment review of non current assets.</p>	<p>We will introduce a process of review for this as part of our implementation of a new fixed asset register.</p> <p>Financial Accountant October 2017</p>



Page
no.

Issue/risk

Recommendation

**Agreed management
action/timing**

10	<p>4. Non current asset depreciation</p> <p>Depreciation not being charged consistently in accordance with accounting policy.</p> <p>Risk</p> <p>Misstatement of assets.</p>	<p>Recommendation 4</p> <p>Depreciation to be calculated consistently in accordance with accounting policies. Transfer of asset records to an electronic asset register will help to facilitate this.</p>	<p>This relates to a couple of spreadsheet errors and will be resolved as part of the implementation of the new fixed asset register.</p> <p>Financial Accountant</p> <p>October 2017</p>
9	<p>5. Payroll reconciliation with financial ledger</p> <p>The reconciliation performed as at 31 March 2017 resulted in a difference of £29,557 between the payroll and financial ledger balances.</p> <p>Risk</p> <p>Errors and inconsistencies occurring in recording payroll costs.</p>	<p>Recommendation 5</p> <p>The payroll ledger should be reconciled with the financial ledger on a regular basis with differences identified and accounted for.</p>	<p>We will ensure going forward that this is reconciled on a regular basis.</p> <p>Payroll Manager</p> <p>September 2017</p>
13	<p>6. Financial regulations/procedures</p> <p>Fully documented financial regulations were not available.</p> <p>Risk</p> <p>Staff may not carry out procedures consistently in accordance with system requirements, and errors or omissions could occur in the processing of transactions and the operation of financial controls.</p>	<p>Recommendation 6</p> <p>Work on production of financial regulations/procedures should be completed as a priority.</p>	<p>Agreed this is in progress and we would expect to complete by end of the year.</p> <p>Financial Accountant</p> <p>December 2017</p>
17	<p>7. Financial sustainability</p> <p>The 2017/18 budget, whilst projecting a near break even position, still presents a challenge to management in achieving that balance.</p>	<p>Recommendation 7</p> <p>sportscotland Group and Lottery Fund budgets should continue to be monitored and revised on a regular basis to achieve financial balance and support long term financial sustainability.</p>	<p>Agreed, we will continue to monitor this closely and report to SMT on a monthly basis.</p> <p>Head of Finance</p> <p>Ongoing</p>



Page no.	Issue/risk	Recommendation	Agreed management action/timing
17	8. Financial sustainability 2018/19 and beyond will present increased uncertainty over funding and income streams.	Recommendation 8 Longer term financial projections should be developed to enable sportscotland to respond to future changes in funding.	Agreed we will continue to develop long term financial projections. Head of Finance Ongoing
17	9. Financial sustainability No capital funding has been awarded for 2017/18.	Recommendation 9 A comprehensive capital plan is developed to support delivery of the Corporate Plan including maintenance requirements across all property, plant and equipment.	We will continue to develop our estate strategy, and continue to monitor our maintenance requirements. Director of Corporate Services Ongoing
20	10. Openness and transparency Board and committee meetings are not open to the public and papers and minutes from meetings are not available publicly.	Recommendation 10 With increasing public expectations for more openness in the conduct of public business, sportscotland needs to keep this area under review and consider whether there is a need to improve transparency.	We will continue to consider options to improve our openness and transparency. Director of Corporate Services Ongoing

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls</p> <p>ISA 240 requires that audit work includes consideration of the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant accounting estimates by management, and evaluation of key assumptions.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of any significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year.</p>	<p>No evidence, from testing carried out, of any management bias or manipulation of financial statements position.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>sportscotland Group and Lottery Fund receive other income streams in addition to grant in aid from the Scottish Government and National Lottery funding. The extent and nature of this income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>The Code of Audit Practice extends the ISA240 assumption on fraud over income to aspects of expenditure.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of income and expenditure transactions, including cut-off, focusing on the areas of greatest risk.</p>	<p>Results from testing of income and expenditure transactions were satisfactory.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity and estimation in the measurement and valuation of the material account areas of non current assets and grant commitments. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of key areas identified.</p>	<p>Satisfactory <i>Work of an Expert</i> review carried out for District Valuer Service.</p> <p>After adjustment, valuations are correctly accounted for in financial statements.</p>
<p>4 Pensions Accounting</p> <p>Sportscotland accounts for its participation in the Strathclyde Pension Fund and in the Scottish Teachers Superannuation Scheme (STSS) in accordance with IAS19 Retirement Benefits, using valuation information provided by scheme actuaries.</p> <p>There is an inherent risk of misstatement of pension charges and liabilities due to the level of assumptions used in actuarial calculations, and the significant impact these can have on the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the Strathclyde Pension Fund scheme actuaries.</p> <p>Direct confirmation with Scottish Public Pensions Authority (SPPA).</p>	<p>Satisfactory <i>Work of an Expert</i> review carried out for Hymans Robertson.</p> <p>Pensions disclosures in remuneration report agreed to statements provided by SPPA.</p>
<p>5 New financial ledger</p> <p>(1) A new financial ledger became operational on 1 April 2016. There is a risk of errors occurring in the migration of data from the previous system to the new system.</p> <p>(2) Possibility of errors inputting asset register information onto new system.</p> <p>(3) Staff unfamiliarity with system.</p>	<p>Review of process for migration of data from old system to new, and detailed testing of transferred balances.</p> <p>Detailed testing of data input from asset register spreadsheet to ledger system.</p>	<p>We were able to obtain assurance by agreeing balances transferred into new system to the audited 2015/16 accounts.</p> <p>Asset register information was not transferred into new system for 2016/17 accounts preparation purposes.</p>
<p>6 Payroll system</p> <p>(1) Payroll system change from 1 December 2016, with possibility of errors in standing data and cumulative payroll balances transferred.</p> <p>(2) sportscotland processes salaries for a large number of governing bodies. Potential reputational damage should errors or processing delays occur.</p>	<p>Review of process for migration of data from old system to new, and detailed testing of transferred balances.</p>	<p>Significant issues arose in the implementation of the new payroll system. Our testing was confined to substantive testing of calculations for net pay and deductions, and confirmation of year end balances.</p>

Audit Risk		Assurance procedure	Results and conclusions
7	<p>Financial operating procedures</p> <p>Financial operating procedures have not yet been updated to support the introduction of the new financial ledger and payroll system. There is a lack of authoritative guidance to support users in entering and managing transactions in the system. This could lead to both inconsistencies and errors.</p>	Review and assessment of revised financial operating procedures when these become available.	Revised financial operating procedures were still being drafted during our audit.
8	<p>Inverclyde project costs</p> <p>Inverclyde project will be classed as Assets under Construction as at 31 March 2017, prior to being gifted to the Trust Company, and will be audited as part of our Non Current Assets work.</p> <p>There is a risk that cumulative costs recognised may include errors or be incomplete.</p>	Detailed review of costs associated with the project, correct cut off procedures and any estimates employed.	Substantive testing of costs allocated to Inverclyde Project was carried out confirming costs were properly incurred in connection with the project and in the year under review. No significant use of estimates was identified.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice			
9	<p>Financial sustainability</p> <p>Scottish Government Spending Plans and Budget 2016-17 imposed a significant reduction in spending across sportscotland. The total budget reduced from £71.8m in 2015/16 to £45.8m in 2016/17. The revenue budget decreased from £34.2m in 15/16 to £29.9m in 16/17. Budgets are expected to reduce further in 17/18; this represents a risk to the financial sustainability of sportscotland and may negatively impact on service delivery and the achievement of the goal of building a world class sporting system in Scotland.</p>	<p>Review and assessment of the adequacy and robustness of medium to long-term financial plans.</p> <p>Focused review of any forecasting or scenario planning feeding into financial plans.</p>	Medium and long term financial planning still to be developed.
5	<p>Pension Fund Deficit</p> <p>The sportscotland pension fund is in deficit (almost £6m as at 31 March 2016) which represents an additional risk to financial sustainability.</p>	Monitor engagement with SG on this issue.	Further assurance received by sportscotland from SG re the pension liability.

Audit Risk	Assurance procedure	Results and conclusions
<p>6 Value for money</p> <p>Recent media coverage has focussed public and government attention on the outcomes from expenditure on sports development.</p> <p>Continuing negative publicity, whilst not necessarily justified nor accurate, may impact adversely on the organisation's reputation, and on its ability to source ongoing necessary funding.</p>	<p>Consider quality and effectiveness of management responses to media exposure.</p>	<p>Media coverage reviewed on an ongoing basis.</p>

Appendix 3

Summary of unadjusted errors





















We report all uncorrected misstatements that are individually greater than our reporting threshold of £6,000 (LF: £3,000).

No.	Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position		Statement of Changes in Taxpayers Equity	
		Dr £000	Cr £000	Dr £000	Cr £000	Dr £000	Cr £000
1	Trade receivables				9.3		
	Income	7.7				7.7	
	VAT Liability			1.6			
2	Staff costs	29.5					
	Other expenditure		29.5				
Net impact		37.2	29.5	1.6	9.3	7.7	

Appendix 4

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

Central Government relevant reports

[Common Agricultural Policy Futures programme: an update](#) – May 2016

[The National Fraud Initiative in Scotland](#) – June 2016

[Audit of higher education in Scottish universities](#) – July 2016

[Supporting Scotland's economic growth](#) – July 2016

[Maintaining Scotland's roads: a follow-up report](#) – August 2016

[Superfast broadband for Scotland: a progress update](#) – August 2016

[Scotland's colleges 2016](#) – August 2016

[Social work in Scotland](#) – September 2016

[Scotland's new financial powers](#) – September 2016

[i6: a review](#) – March 2017

[Managing new financial powers: an update](#) – March 2017

(Page intentionally blank)

sportscotland Group and sportscotland Lottery Fund

2016/17 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, South Suite, 8 Nelson Mandela Place, Glasgow G2 1BT
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk