

sportscotland Group and Lottery Fund

2017/18 Annual Audit Report



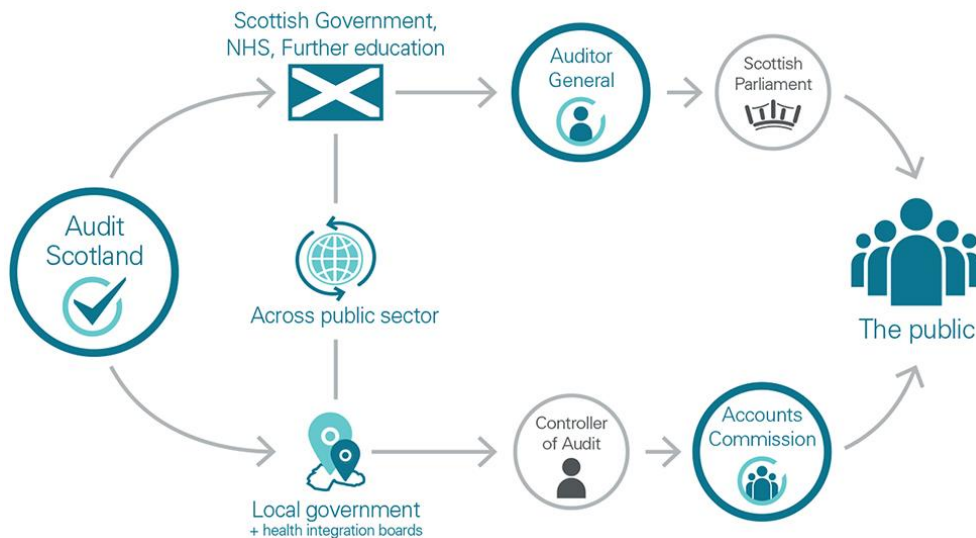
 AUDIT SCOTLAND

Prepared for the sportscotland Board and the Auditor General for Scotland
October 2018

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.

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Key messages

2017/18 annual report and accounts

- 1 In our opinion the financial statements of sportscotland Group and Lottery Fund give a true and fair view of the state of affairs of these bodies as at 31 March 2018 and of their net expenditure / decrease in funds for the year then ended.
- 2 We have issued unqualified independent auditor's report on the accounts of both bodies for 2017/18.

Financial management

- 3 Systems of internal control operated effectively in 2017/18 with scope for improvement in some areas.
- 4 We have concluded that there are effective arrangements in place for financial management.

Financial sustainability

- 5 sportscotland Group and Lottery Fund do not report financial information beyond 2018/19. Medium to long term financial plans should be developed using sensitivity analysis and scenario planning.

Governance and transparency

- 6 Effective governance arrangements are in place that support scrutiny and challenge over decisions, performance and programme management.

Value for money

- 7 A well-developed performance management framework is in place that supports the achievement of value for money.

Introduction

1. This report summarises the findings from our 2017/18 audit of sportscotland Group and Lottery Fund.

2. The scope of our audit was set out in our Annual Audit Plan presented to the April meeting of the Audit and Risk Committee. This report comprises the findings from an audit of the sportscotland Group and Lottery Fund's annual report and accounts and consideration of the four audit dimensions that frame the wider scope of public audit 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 2017/18 have been:

- a review of the main financial systems in place
- an audit of sportscotland Group and Lottery Fund's 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

4. sportscotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.

- 5.** sportscotland is also responsible for establishing effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.
- 6.** Our responsibilities as independent auditor are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance, and International Standards on Auditing in the UK.
- 7.** As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. 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 are only those which have come to our attention during our normal audit work, and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
- 9.** Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.
- 10.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2017/18 audit fee, covering both bodies, of £46,220 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

- 11.** Our aim is to add value to the sportscotland Group and Lottery Fund by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.
- 12.** 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 in due course.
- 13.** 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 2017/18 annual report and accounts



Main judgements

Our audit opinions for both sportscotland Group and the Lottery Fund were unqualified. These covered the financial statements, the audited part of the remuneration and staff report, the performance report and the governance statements.

Expenditure and income were in accordance with applicable enactments and guidance.

Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2018 were approved by the board in October 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

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.

15. Additionally, we have nothing to report in respect of the other information in the annual accounts, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and accounts for audit

16. We received the unaudited financial statements for sportscotland Lottery fund on 29 May 2018 in line with our agreed audit timetable. The unaudited financial statements for sportscotland Group were provided a few days later. The narrative sections including the performance report and accountability report were provided during the audit process. The working papers provided with the unaudited financial statements ranged in quality with some requiring additional explanations due to the complexity of the schedules. This impacted on the overall efficiency of the audit process.



[Recommendation 1](#) (refer appendix 1, action plan)

Whole of Government Accounts (WGA)

17. In accordance with the WGA guidance we have completed the required assurance statement and submitted it to the National Audit Office (NAO) by the 30 September 2018 deadline.

Risk of material misstatement

18. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process, wider dimensions risks, how we addressed these and our conclusions. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team.

Materiality

19. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. On receipt of the annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate and were not revised. Materiality levels are shown in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Group	Lottery Fund
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements.	£385,000	£300,000
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.	£192,000	£150,000
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the ‘reporting threshold’ amount.	£10,000	£9,000

Source: Annual Audit Plan 2017/18

Evaluation of misstatements

20. Our early review of the prior year financial statements for sportscotland Group identified some presentational changes which would improve understandability and ensure full FReM compliance. This change in format resulted in the revaluation gain of £4.276 million for the prior year being moved to the comprehensive income and expenditure section of the statement for the group with a similar decrease in the general fund. This reflects the fact that this “gain” has not yet been realised as the assets are still in use. Finance staff decided not to process the similar adjustment for a downward revaluation of a single entity asset. If this error had been corrected this would have increased net expenditure on the Statement of Comprehensive Expenditure by £0.3 million and reduced the revaluation reserve balance by £0.3 million.

21. There was one material adjustment to the 2017/18 financial statements arising from our audit. This related to the error identified in local government pension scheme valuations across Scotland as highlighted in [Exhibit 3](#) below.

22. The audit process identified one misstatement in the sportscotland Lottery Fund unaudited financial statements which has now been adjusted. The impact of this change is an increase in expenditure of £0.125 million and a decrease in net assets of £0.125 million.

23. Several changes to the format of the sportscotland Lottery Fund Statement of Comprehensive Net Expenditure were required to ensure full compliance with the requirements of the Accounts Direction.

24. In assessing the total errors we recognised that these exceeded our overall performance materiality levels. We are content that we have identified the entire error associated with the pension valuations and therefore decided that no further audit work was required.

25. 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 officers and materiality levels.

Significant findings from the audit in accordance with ISA 260

26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. 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](#) has been included.





27. These findings include our views about significant qualitative aspects of the sportscotland Group and Lottery Fund's accounting practices including:

- | | |
|---|---|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |
| • Misstatements in the annual report and accounts | • Disagreement over any accounting treatment or financial statements disclosure |

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Pension Scheme Valuation</p> <p>sportscotland Group accounts for its share of Strathclyde Pension Fund in accordance with International Accounting Standard 19 - Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the scheme's actuary (Hymans Robertson). The actuary produced the IAS 19 report using estimated data for the final part of the year resulting in asset returns being significantly lower than the actual returns achieved. This resulted in pension fund assets reported in the group statement of financial position being understated. This issue existed across the public sector.</p>	<p>This has been adjusted in the audited accounts. The amendment resulted in a net decrease to the group pension liability of £1.324 million.</p>

Issue	Resolution
<p>2. Financial Statements format</p> <p>As noted at para 20 amendments were required to the format of the sportscotland Group financial statements to improve understandability and ensure full FReM compliance.</p>	<p>The adjustment to the Group figures has been made in the audited accounts. Management has decided not to adjust for the single entity misstatement which was below our materiality threshold.</p>
<p>3. Staff cost allocation</p> <p>The 2017/18 allocation of staff costs between sportscotland Group and Lottery Fund was incorrectly based on the 2016/17 allocation. This resulted in staff costs being understated in sportscotland Lottery Fund's accounts by £0.125 million.</p>	<p>Amended in the audited accounts of sportscotland Lottery Fund.</p>
<p>4. Staff costs</p> <p>We were unable to agree the split of staff costs disclosed within the financial statements, without minor adjustments, due to weaknesses in the payroll reconciliation and the detail within the ledger.</p>	<p>Total staff costs for sportscotland Group and Lottery Fund were verified. There is no impact on total staff costs or net expenditure.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>
<p>5. Grant accounting treatment</p> <p>Grants awarded by sportscotland Lottery Fund are held on the ledger in a combination of accruals and cash basis with further awards held off ledger in the year of approval. Complex working papers are developed to establish the figures that are included in the financial statements. Several amendments to the grants disclosure note were required due to the audit process.</p>	<p>Sufficient audit evidence was obtained to verify the grant disclosures in the financial statements.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>
<p>6. Revaluation Reserve</p> <p>sportscotland Group hold a revaluation reserve of £0.8 million as at 31st March 2018, however they do not have a robust, accurate breakdown of this balance allocated to assets. No adjustment was therefore made in year for amortisation.</p>	<p>Amortisation in year would be below our reporting threshold.</p> <p> Recommendation 4 (refer appendix 1, action plan)</p>
<p>7. Non current asset verification</p> <p>No formal verification checks were completed at the year end to assess the completeness and existence of non current assets.</p>	<p>Audit testing did not identify any misstatements.</p> <p> Recommendation 5 (refer appendix 1, action plan)</p>

Source: Audit Scotland

Other findings

28. In addition to the issues set out above, and in accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with finance staff.

Follow up of prior year recommendations

29. We have followed up actions agreed in 2016/17 to assess progress with implementation. Overall limited progress has been made in implementing these actions. For actions not yet implemented, revised responses and timescales have been agreed with management, as set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

sportscotland had effective overall management of the 2017/18 budget.

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

Finance team members have appropriate skills, capacity and capability to support sportscotland Group and Lottery Fund.

Financial performance in 2017/18

30. The main financial objective for sportscotland Group is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. For sportscotland Lottery Fund the main objective is that the payment of awards and associated administration costs are within the amounts called down from the National Lottery Distribution Fund (NLDF).

31. In 2017/18 sportscotland Group received £31.7 million in Departmental Expenditure Limits (DEL) and £2.3 million in Annually Managed Expenditure (AME) from the Scottish Government. Outturn against budget is shown in [Exhibit 4](#).

Exhibit 4

Performance against DEL in 2017/18

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	30.650	30.650	30.650	-
Capital DEL	0	0	0	-
Total	30.650	30.650	30.650	-
Non Cash DEL	1.050	1.050	0.704	(0.346)
Total DEL	31.700	31.700	31.354	(0.346)
AME	2.325	2.325	1.963	(0.362)

Source: sportscotland Group Annual Report and Accounts 2017/18

32. This grant in aid income was supplemented by other income of £6.0 million including £3.5 million from Scottish Sports Council Trust Company and £2.5 million from other operating income such as High Performance Income and rental income.

33. sportscotland Lottery Fund has reported an expenditure outturn of £30.1 million (2016/17: £30.1 million), income of £26.7 million (2016/17: £27.1 million) and a balance called down from NLDF of £28.7 million (2016/17: £34.1 million).

Budgetary processes

34. We reviewed the budget setting processes and monitoring arrangements in place. From our review of budget monitoring reports, review of board papers and attendance at board meetings we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position. In addition performance against budget is reported on a monthly basis to the Senior Management Team.

35. We concluded that there are strong budgetary monitoring and control arrangements in place that allow both members and staff to carry out effective scrutiny of finances.

Systems of internal control

36. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the systems of recording and processing transactions provide a sound basis for the preparation of the financial statements.

37. Our findings were included in the management report presented to the Audit and Risk Committee on 20 June 2018. We concluded that, generally, controls were operating satisfactorily, however we suggested enhancements which would strengthen the internal control environment.

Financial capacity

38. We have concluded that the finance team is led by suitably qualified and experienced individuals. No skills or capacity gaps have been identified within the finance team.

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

Part 3

Financial sustainability



Main judgements

sportscotland does not report financial information beyond 2018/19 for the Group or Lottery Fund. Medium to long term financial plans should be developed using sensitivity analysis and scenario planning.

Financial planning

39. sportscotland Group and sportscotland Lottery Fund published its 2018/19 draft budget in April 2018 with a resource allocation of £29.9 million and capital grant in aid of £0.8 million. Additional funding of £3.4 million was also detailed to compensate for reductions in National Lottery funding, the followed discussions with the Scottish Government. The budget projected a breakeven position across both bodies.

2017/18 financial position

40. The Statement of Financial Position summarises what is owned and owed by sportscotland Group and 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.

41. The financial statements show that sportscotland Group has net assets of £21.1 million an increase of £7.9 million largely attributable to a decrease in the pension liability of £10.2 million offset by an increase in year-end liabilities. sportscotland Lottery Fund has net assets of £34.9 million a decrease of £3.5 million largely attributable to reduction in cash held at year end of £4.3 million.

Medium to long term financial planning

42. sportscotland Group and Lottery fund continue to face uncertainty over funding with reductions in both Grant in Aid and National Lottery funding in recent years. A review of the financial planning processes was undertaken to assess how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

43. The Business Plan 2017/19 sets out the financial forecast for 2018/19. No financial projections beyond this point have been reported, however we recognise that a 4 year forecast has been prepared for the Lottery Fund to support the grant award process. The Board receives a presentation on the future projections as part of the budget setting process. We recognise the volatility of the National Lottery income and the annual settlements from the Scottish Government and would recommend the further development of scenario planning within the 4 year forecast given the current financial challenges.

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.



[Recommendation 6](#) (refer appendix 1, action plan)

Part 4

Governance and transparency



Main judgements

Effective governance arrangements are in place that support scrutiny of decisions.

sportscotland Group and Lottery Fund is open and transparent in the way it conducts its business but with some scope for improvement.

Governance arrangements

44. sportscotland is governed by a board that is accountable to Scottish Ministers and responsible for ensuring the delivery of its Corporate Plan and the Strategic Priorities set by Scottish Ministers. At 31 March 2018, the board consisted of 12 non-executive members. The board is supported by four main committees: Audit and Risk Committee, the Group Remuneration and Succession Planning Committee, the Group Ethics Committee and the Financial Resources Committee.

45. From attendance at the Audit and Risk Committee, and review of wider committee minutes we can confirm that agendas follow a standard format and papers are circulated to members in advance, allowing adequate time for review. We are satisfied that members provide appropriate scrutiny.

46. We concluded that there are adequate governance, decision making and scrutiny arrangements in place. These arrangements provide an appropriate framework for organisational decision making.

Transparency

47. 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 such as money, people and assets.

48. Board and other committee meetings are held in private. sportscotland publishes Board minutes on the website, but papers are generally not publicly available. With increasing expectations for openness in the conduct of public business sportscotland should regularly revisit this area to ensure the public has access to relevant information.

Risk management

49. sportscotland maintain seven portfolio risk registers aligned to the portfolios in the 2017-19 business plan. These are reviewed quarterly with relevant risks escalated to the corporate risk register. The corporate risk register is reviewed by the Board annually, and the Audit and Risk Committee every six months. Significant risks, those which are still rated high after mitigating actions are monitored by the Senior Management Team.

50. We concluded that the risk management arrangements are effective and include appropriate reporting to the Board.

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.

Internal audit

51. The internal audit function is carried out by BDO LLP. Each year we consider whether we can rely on internal audit work to avoid duplication of effort by assessing compliance with Public Sector Internal Audit Standards including areas such as audit documentation, reporting procedures, quality, and compliance with Public Sector Internal Audit Standards (PSIAS). We reviewed sportsScotland Group and Lottery Fund's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit.

52. Due to timing we did not place any formal reliance on the work of internal audit for our financial statements responsibilities. However as part of our wider dimension considerations we took assurance from the work of internal audit on Financial Planning and the General Data Protection Regulation.

Governance Statement

53. HM Treasury's Financial Reporting Manual (the FReM) states that sportsScotland Group and 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 governance statement and provides assurances around the achievement of the organisation's strategic objectives.

54. The SPFM does not prescribe a format for the annual governance statement but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

55. We concluded that the 2017/18 governance statement 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.

Quality of financial and performance reporting

56. Performance reporting is principally provided by quarterly reports to the Board. A reporting timetable is in place to ensure the information provided is robust and comprehensive. The report contains detail for each portfolio including financial performance and wider highlights and challenges that should be brought to the Board's attention.

57. We concluded that the financial and performance reporting provides a balanced picture to support robust scrutiny.

National Fraud Initiative

58. 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 irregularity. The NFI activity is summarised in [Exhibit 5](#) and shows that all matches were reviewed and no frauds were identified.

Exhibit 5

NFI activity



140

Matches



19

Recommended
for investigation

140

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

Standards of conduct for prevention and detection of fraud and error

59. We have reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption. Based on our review of the evidence we concluded that there are 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.

Cyber security

60. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate. We concluded that sportscotland is actively strengthening its cyber resilience arrangements. In September 2017 sportscotland achieved its Cyber Essentials Plus accreditation.

General Data Protection Regulation

61. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. GDPR has introduced new and significantly changed data protection concepts including a wide range of new rights for individuals in respect of their personal data. Failure to comply with new GDPR data handling arrangements could result in significant fines.

62. Management have advised that sportscotland has put in place arrangements to make themselves compliant with the requirements of the new regulations. Internal audit assessed sportscotland's preparations for GDPR and noted several areas of good practice including staff awareness and the formation of a GDPR working group. However several recommendations were made including improvements to the GDPR action plan and appointment of a Data Protection Officer. A follow up of this work will be undertaken in due course.

Part 5

Value for money



Main judgements

There is an effective performance management framework in place which supports the achievement of value for money and continuous improvement.

Performance management

63. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value and the Auditor General may require that we consider the arrangements that have been put in place. Where such requirements are not specified we may, in discussion with the audited bodies, agree to undertake local work in this area.

64. Several performance targets are in place to support the delivery of the Scottish Government's national performance framework. These targets and the associated plans are set out in the Strategic Plan with performance reported to and scrutinised by the Board.

65. We recognise that the Board is kept well informed of performance across all areas of activity. Responsibility for detailed review and scrutiny of performance lies with the Audit and Risk Committee which we regularly attend. We therefore have a good insight into the scrutiny applied and are satisfied that this is robust.

66. We concluded that there is an effective performance management framework in place which supports the achievement of value for money and continuous improvement.

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

National performance audit reports

67. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The report published in 2017/18 are outlined in [Appendix 3](#) and may be of interest to [sportscotland](http://sportscotland.gov.uk).

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Submission of financial statements and working papers for audit</p> <p>The narrative sections of the annual report and accounts were not provided until later in the audit process. In addition, some of the working papers provided meant additional time was required to agree figures in the financial statements.</p> <p>Risk</p> <p>The audit process is inefficient resulting in issues with achieving the completion deadlines.</p>	<p>Working papers should be revised to ensure they include sufficient information to enable agreement to the figures in the financial statements without the need for extensive reperformance / discussion.</p> <p>The delivery of the unaudited accounts should be discussed to agree the timing of the different sections to enable a robust resource plan to be prepared. Paragraph 16</p>	<p>It was agreed that the narrative would be provided later. We should look to agree a revised timetable to reflect this.</p> <p>By the nature of the complexity of some of the working papers it is unavoidable that extra time is required for this information.</p> <p>However we will look to agree revised working papers with the auditors to ease this process in future year ends.</p> <p>Financial Accountant</p> <p>Prior to interim audit</p>
2	<p>Staff costs</p> <p>We were unable to agree the split of staff costs disclosed within the financial statements without minor adjustments due to weaknesses in the payroll reconciliation and the detail within the ledger.</p> <p>Risk</p> <p>Figures in the financial statements relating to staff costs are inaccurate.</p>	<p>The payroll system should be reconciled with the financial ledger on a regular basis. In addition the financial ledger codes should be amended to support the disclosures required in the financial statements. Exhibit 3, point 4</p>	<p>Payroll is now being reconciled on a regular basis, as was advised we have had issues with the new system.</p> <p>While it would be useful to make an amendment to the codes for year end purposes, we feel that the added complexity would be detrimental to our monthly budget monitoring and reporting.</p> <p>We will look to enhance the detail on the reconciliations to aid auditor understanding.</p> <p>Financial Accountant</p> <p>Prior to interim audit</p>



No. Issue/risk

Recommendation

Agreed management action/timing

<p>3 Grants</p> <p>Grants awarded by sportscotland Lottery Fund are held on the ledger in a combination of accruals and cash basis with further awards held off ledger in the year of approval.</p> <p>Risk</p> <p>There is a risk that grant information is misstated in the financial statements due to the complex recording arrangements.</p>	<p>All financial transactions should be recorded on the ledger on an accruals basis in accordance with the accounting standards. Exhibit 3, point 5</p>	<p>We agreed to review this process post year end, and will agree with the auditors the best way forward.</p> <p>Financial Accountant</p> <p>Prior to interim audit</p>
<p>4 Revaluation Reserve</p> <p>sportscotland Group hold a revaluation reserve of £0.8 million as at 31st March 2018, however they do not have a robust, accurate breakdown of this balance allocated to assets.</p> <p>Risk</p> <p>There is a risk that the revaluation reserve is overstated.</p>	<p>A review of the balances in the revaluation reserve should be performed in 2018/19. Exhibit 3, point 6</p>	<p>Agreed.</p> <p>Financial Accountant</p> <p>Prior to interim audit</p>
<p>5 Asset Verification</p> <p>Formal verification checks on the completeness of recording and existence of non current assets was not undertaken in 2017/18.</p> <p>Risk</p> <p>Errors or omissions could occur in the recording of assets, or misappropriations of assets could go undetected</p>	<p>Reintroduce formal verification to ensure the completeness and accuracy of the non current assets. Exhibit 3, point 7</p>	<p>As was advised during the audit, we will be reintroducing this after further training on the new fixed asset system.</p> <p>Financial Accountant</p> <p>Prior to interim audit</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
6	<p>Medium to long term financial planning</p> <p>The 4 year financial projection is not sufficiently detailed to enable full consideration of potential scenarios.</p> <p>Risk</p> <p>There is a risk that, without sufficient planning, they will not be able to respond to future budget changes and other emerging cost pressures.</p>	<p>The 4 year forecast should be further developed and include robust scenario planning given the current financial challenges.</p> <p>Paragraph 43</p>	<p>As discussed in detail at the Audit and Risk Committee following an Internal Audit Report on this issue, it is very difficult to carry out medium to long term financial planning when SG funding is confirmed on a single year basis and National Lottery income is very volatile and only known the month after ticket purchasers' spend has occurred.</p> <p>However, a 4 year forecast of forward National Lottery spend has been maintained throughout 2017-18 and a 4 year forecast has been prepared for 2018-19 onward, incorporating various scenarios based on assumptions from DCMs, as part of the main budget workbook. Financial analysis for the next 4 years is also being developed in co-ordination with the SG sponsor team as part of ongoing funding discussions.</p> <p>Head of Finance October 2018</p>

Follow up of prior year recommendations

b/f	<p>Incomplete unaudited financial statements and working papers</p> <p>Initial draft accounts and working papers were incomplete.</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>Refer to action plan point 1 above</p>
b/f	<p>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>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>Refer to action plan point 5 above</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	<p>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>Introduce a formal documented process for impairment review of non current assets.</p>	<p>Actioned - An impairment review was undertaken for both sportscotland Group and Lottery Fund assets.</p>
b/f	<p>Non current asset depreciation</p> <p>Depreciation not being charged consistently in accordance with accounting policy.</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>Actioned - From testing of depreciation in 2017/18 no issues were identified.</p>
b/f	<p>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>The payroll ledger should be reconciled with the financial ledger on a regular basis with differences identified and accounted for.</p>	<p>Refer to action plan point 2 above</p>
b/f	<p>Financial regulations/procedures</p> <p>Fully documented financial regulations were not available.</p>	<p>Work on production of financial regulations/procedures should be completed as a priority.</p>	<p>Action commenced – We reported in our management report working on an updated set of procedures is underway.</p>
b/f	<p>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>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>Actioned – 2017/18 outturn reported.</p>
b/f	<p>Financial sustainability</p> <p>2018/19 and beyond will present increased uncertainty over funding and income streams.</p>	<p>Recommendation</p> <p>Longer term financial projections should be developed to enable sportscotland to respond to future changes in funding.</p>	<p>Refer to action plan point 6 above</p>
b/f	<p>Financial sustainability</p> <p>No capital funding has been awarded for 2017/18.</p>	<p>A comprehensive capital plan is developed to support delivery of the Corporate Plan including maintenance requirements across all property, plant and equipment</p>	<p>Actioned - No significant capital projects are anticipated and any capital purchases will be met from revenue in year.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	<p>Openness and transparency</p> <p>Board and committee meetings are not open to the public and papers and minutes from meetings are not available publicly.</p>	<p>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.</p>	<p>Partially actioned – Board minutes are now available on the website. This matter has been discussed and there are currently no plans to publish papers on the website.</p>

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 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider 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>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year. 	<p>Results - Our audit procedures did not uncover any significant issues. There were no significant transactions outside the normal course of business.</p> <p>Conclusion – No issues were identified that indicate management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>sportscotland Group and Lottery Fund receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> • Analytical procedures on income streams. • Detailed testing of revenue transactions focusing on the greatest areas of risk. 	<p>Results – We did not identify any issues from our testing of income streams.</p> <p>Conclusion – No fraud issues were identified.</p>
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice expands the ISA 240 assumption on fraud over income to aspects of expenditure. sportscotland Group and Lottery Fund incur significant expenditure on the award of grants and therefore there is an inherent risk of fraud over expenditure.</p>	<ul style="list-style-type: none"> • Detailed testing of grant expenditure to ensure all conditions have been met prior to payments being made. • Reliance on the work of internal audit on facilities investment. 	<p>Results – We did not identify any significant issues from our testing of expenditure.</p> <p>Conclusion – No fraud issues were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>4 Non-current asset accounting for sportscotland Group</p> <p>sportscotland are in the process of implementing a new fixed asset system. Our 2016/17 audit identified a number of issues over the accounting for fixed assets including the lack of asset verification and impairment reviews, and depreciation not being charged in line with accounting policies.</p> <p>There is a risk that the sportscotland Group does not hold accurate records of its assets and that they are misstated in the accounts.</p>	<ul style="list-style-type: none"> Review the process for migration of non-current asset data into the new system. Substantive testing of a sample of assets to ensure the assets exists and depreciation has been applied appropriately. 	<p>Results – We did not identify any significant issues from our review of the new fixed asset system.</p> <p>There is still a lack of verification testing - Appendix 1 point 5.</p> <p>From testing of a sample of depreciation no issues were identified.</p> <p>Conclusion – Despite the lack of formal asset verification our audit testing provided the required assurance.</p>
<p>5 Classification of grant commitments</p> <p>Our 2016/17 audit identified the misclassification of grant commitments between hard and soft commitments, as defined by the Direction of Scottish Ministers.</p> <p>There is a risk that grants are incorrectly accounted for resulting in a misstatement in the accounts.</p>	<ul style="list-style-type: none"> Detailed testing of grant expenditure to ensure appropriately classified at year end. 	<p>Results - Audit testing of grant commitments did not identify any issues with classification between soft and hard commitments.</p> <p>Conclusion – Grants appropriately classified in the 2017/18 financial statements.</p>
Wider dimension risks		
<p>6 Financial sustainability</p> <p>sportscotland Group and Lottery Fund continues to face uncertainty over funding with reductions in both Grant in Aid and National Lottery funding in recent years.</p> <p>Although a break even position is forecast for 2017/18 there is a risk that, due to a lack of financial planning, financial balance may not be achievable in the medium to long term.</p>	<ul style="list-style-type: none"> Review and assess the adequacy and robustness of medium to long-term financial plans. Reliance on the work of internal audit on financial planning. 	<p>Results - sportscotland Group achieved an underspend and detailed in Exhibit 4.</p> <p>Although the bodies financial position is sustainable in the foreseeable future, it is recommended that sportscotland Group and Lottery Fund produce medium to long term financial plans to ensure they are able to respond to future budget changes and other emerging cost pressures - Appendix 1 point 6.</p> <p>Conclusion – sportscotland Group and Lottery Fund is financially sustainable in the foreseeable future.</p>

Appendix 3

Summary of national performance reports 2017/18

		 2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Central Government relevant reports

[Common Agricultural Policy Futures programme: further update](#) – June 2017

[Transport Scotland's ferry services](#) – October 2017

[Early learning and childcare](#) – February 2018

[Managing the implementation of the Scotland Acts](#) – March 2018

sportscotland Group and Lottery Fund

2017/18 Annual Audit Report

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