

# Creative Scotland and Creative Scotland National Lottery Distribution Fund

2018/19 Annual Audit Report

The logo for Audit Scotland, featuring a stylized checkmark icon to the left of the text "AUDIT SCOTLAND".

AUDIT SCOTLAND

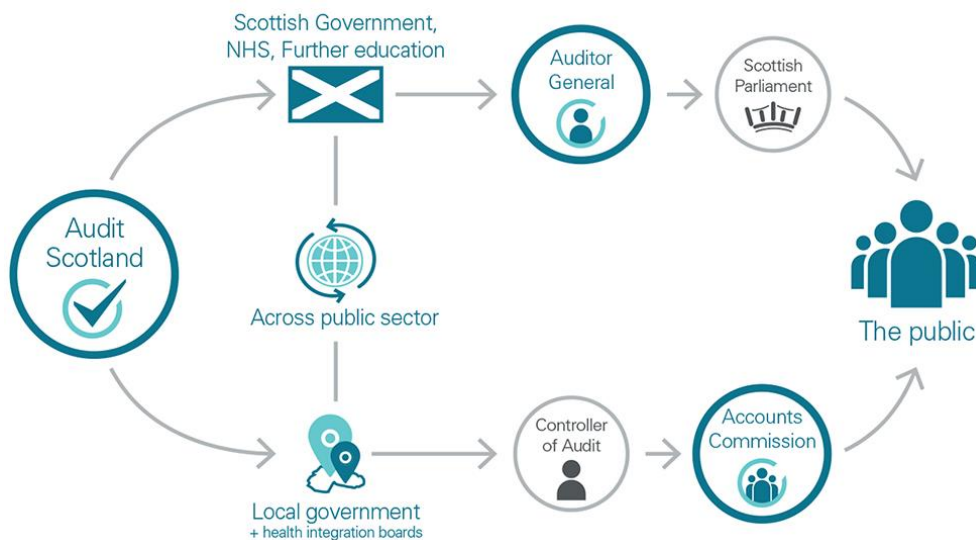
Prepared for Creative Scotland and Creative Scotland National Lottery Distribution Fund and the Auditor General for Scotland

7 October 2019

## 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

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## 2018/19 annual report and accounts

- 1** The financial statements of Creative Scotland and Creative Scotland National Lottery Distribution Fund give a true and fair view of the state of affairs as at 31 March 2019 and of the net expenditure/net income for the year then ended.
- 2** The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
- 3** 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 relevant legislation and directions made by Scottish Ministers.

## Financial management

- 4** We concluded that Creative Scotland has appropriate and effective arrangements in place for financial management.
- 5** Systems of internal control operated appropriately and effectively in 2018/19 with scope for improvements in the grant management system.

## Financial sustainability

- 6** We concluded that Creative Scotland has appropriate and effective financial planning arrangements in place.
- 7** Creative Scotland should continue to monitor funding allocations and consider the most efficient and effective ways to deliver its objectives and priorities within potentially decreasing resources.

## Governance and transparency

- 8** We concluded that Creative Scotland has adequate governance arrangements in place that support organisational decision making.
- 9** Creative Scotland has arrangements in place to demonstrate transparency but there is scope for improvement.

## Value for money

- 10** Creative Scotland regularly monitors and reports performance to members.
- 11** Creative Scotland should identify performance indicators which meaningful targets can be set for and performance can be assessed against.

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# Introduction

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**1.** This report summarises the findings from our 2018/19 audit of Creative Scotland and Creative Scotland National Lottery Distribution Fund.

**2.** The scope of our audit was set out in our Annual Audit Plan presented to the 7 March 2019 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of the annual report and accounts
- 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](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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**3.** The main elements of our audit work in 2018/19 have been:

- a review of Creative Scotland's main financial systems
- an audit of Creative Scotland and Creative Scotland National Lottery Distribution Fund's annual report and accounts including the issue of an independent auditor's report setting out my opinions
- consideration of the four audit dimensions of public audit.

## Adding value through the audit

4. We add value to Creative Scotland through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- Providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

5. In so doing, we aim to help Creative Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

6. Creative Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. The annual report and accounts include the following:

- Performance Report
- Accountability Report (which includes the Corporate Governance Report and Remuneration and Staff Report)
- Financial statements and supporting notes

7. Creative Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements,
- the financial position and arrangements for securing financial sustainability.

10. 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.

11. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. 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.

**12.** 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 any outstanding actions from last year and progress against these.

**13.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £45,190 for Creative Scotland and £23,610 for Creative Scotland National Lottery Distribution Fund, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**14.** This report is addressed to Creative Scotland, Creative Scotland National Lottery Distribution Fund and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**15.** We would like to thank all management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual report and accounts



### Main judgements

The financial statements of Creative Scotland and Creative Scotland National Lottery Distribution Fund give a true and fair view of the state of affairs of the bodies as at 31 March 2019 and of the net expenditure/net income for the year then ended.

The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

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 relevant legislation and directions made by Scottish Ministers.

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.

### Audit opinions on the annual report and accounts

**16.** The annual report and accounts for the year ended 31 March 2019 were approved by the board on 4 October 2019. We reported within the independent auditor's report that:

- 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 issued by Scottish Ministers
- 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 relevant legislation and directions made by Scottish Ministers.

**17.** Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

### Submission of annual report and accounts for audit

**18.** We received the unaudited annual report and accounts on 1 July 2019 in line with our agreed audit timetable.

**19.** The working papers provided with the unaudited financial statements were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.



## Whole of Government Accounts

**20.** In accordance with the WGA guidance we completed the required assurance statement and submitted to the National Audit Office (NAO) by the 28 September 2019 deadline. This will confirm that both Creative Scotland and Creative Scotland National Lottery Distribution Fund fall below the threshold for consolidation of a WGA audit.

## Risk of material misstatement

**21.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

**22.** We have reported an issue from our work on the risks of material misstatements highlighted in our 2018/19 Annual Audit Plan. This relates to performance reporting and is included in the action plan at [Appendix 1](#).

## Materiality

**23.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

**24.** Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

**25.** On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and revised these based on the year end outturn position. This resulted in our materiality and performance materiality increasing for Creative Scotland and reducing for the National Lottery Distribution Fund. These changes did not result in our planned audit approach altering.

## Exhibit 2 Materiality values

Materiality level	Creative Scotland	National Lottery Distribution Fund
Overall materiality	£0.660 million	£0.255 million
Performance materiality	£0.396 million	£0.135 million
Reporting threshold	£19.8 thousand	£13 thousand

Source: Audit Scotland

## 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, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.



27. The significant findings 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.


### Qualitative aspects of the audit

28. We have no significant findings to report around the qualitative aspects of the accounts, including accounting policies, accounting estimates/judgements, significant financial statement disclosures, impact of uncertainties etc of the 2018/19 accounting practices.

## Exhibit 3 Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Performance reporting measures</b></p> <p>The Financial Reporting Manual requires audited bodies to disclose within the statement of accounts information on its key performance measures and how it measures performance against those.</p> <p>The outcomes and performance measures disclosed within the 2018/19 Annual Report and Accounts, is an improvement on previous years but is an area that still requires further work. Arrangements need to be put in place to identify key performance indicators and collate reporting information for these within the 2019/20 annual accounts timescales.</p> <p>Whilst Creative Scotland discloses outcomes and performance measures in its Annual Review of Performance this information is not included within the Performance section of the Annual Report and Accounts.</p>	<p>Officers should enhance the reporting of performance within the statement of accounts to comply with the reporting framework.</p> <p>Performance is disclosed in the Annual Review published later in the year. Staff should arrange to gather data on key performance indicators earlier to permit incorporation in the Annual Report and Accounts.</p> <p> <a href="#">Recommendation 1</a> (refer appendix 1, action plan)<a href="#">Appendix 1</a></p>
<p><b>2. Pension</b></p> <p>In June 2019 the supreme court upheld the ruling from 2018 (the McCloud judgement) that changes made by the government to the pensions of judges and firefighters were unlawful on the grounds of age discrimination. We determined that this was a post balance sheet event, that if material, would require an adjustment to the unaudited accounts.</p> <p>The impact was an increase in the pension liability of £75k.</p>	<p>An adjustment has been made to the Annual Report and Accounts.</p>
<p><b>3. Remuneration and staff report</b></p> <p>The unaudited remuneration and staff report required a number of disclosure changes to ensure compliance with Financial Reporting Manual (FRM) requirements. These are outlined below:</p> <ul style="list-style-type: none"> <li>• Inclusion of seconded staff within the staff cost table, with a footnote to explain funding arrangements for these posts.</li> </ul>	<p>These adjustments have been incorporated within the Annual Report and Accounts.</p>

Issue	Resolution
<ul style="list-style-type: none"> <li>• Re-calculation of the median salary based on actual remuneration as opposed to contracted salaries.</li> <li>• Updates to the exit package disclosure to include analysis between compulsory redundancies and other redundancies.</li> <li>• Disclosure of benefits in kind to the nearest £100 as opposed to the nearest £1,000.</li> </ul>	
<p><b>4. Breakdown of employees</b></p> <p>To comply with the requirements of the Financial Reporting Manual (FRoM), the breakdown of employee groups by sex should include the Chair and other non-executive board members.</p>	<p>Arrangement should be put in place to record and report the disclosures required for the publication of the Annual Report and Accounts.</p> <p> <a href="#">Recommendation 2</a> (refer appendix 1, action plan)<a href="#">Appendix 1</a></p>
<p><b>5. General Data Protection Requirements</b></p> <p>To comply with the requirements of General Data Protection Requirements (GDPR), employers are required to advise individuals in advance of personal data such as salaries and pensions being disclosed.</p> <p>During the audit process, we noted that this notification had still not been issued to all individuals disclosed in the unaudited remuneration report.</p>	<p>Officers should timetable within the accounts preparation process the need to advise individuals of the personal data being included within the accounts.</p> <p> <a href="#">Recommendation 3</a> (refer appendix 1, action plan)<a href="#">Appendix 1</a></p>
<p><b>6. Director Report disclosures</b></p> <p>The directors report includes details of the senior leadership team and board members at the time of signing the accounts.</p> <p>The disclosure should include all executive and non-executive members who were in post during the financial year 2018/19. Relevant 'to' and 'from' dates should be added to the report to outline the dates of appointment.</p>	<p>These adjustments have been incorporated within the Annual Report and Accounts.</p>
<p><b>7. Creditors – Long term liabilities</b></p> <p>Current liabilities within the accounts include the total rent-free creditor for Waverley Gate. The rent free 'income' is currently being amortised until the lease termination date of 31 March 2026.</p> <p>On review of the trade and other payables balance, it was identified that £49k of the liability is due to be recognised within one year and should be disclosed as a non-current 'trade and other payables' liability, and the remaining £600k should be recognised within the accounts as a non-current trade and other payables liability.</p>	<p>This has been adjusted for within the Annual Report and Accounts.</p>
<p><b>8. Trade Union Relations Disclosure</b></p> <p>The Remuneration Report includes a disclosure for Trade Union Relations in line with the Trade Union (Facility Time Publications Requirements) Regulations 2017. Some information was outstanding in the unaudited accounts due to the information still being collated.</p>	<p>Finance and HR staff should ensure that procedures in place enable future reporting requirements to be met, both in the statement of accounts and through publication on the Creative Scotland website.</p>

Issue	Resolution
The Regulation also requires publication of this information on the website by 31 July 2019 and this deadline has not been met.	 <a href="#">Recommendation 4</a> (refer appendix 1, action plan) <a href="#">Appendix 1</a>

Source: Audit Scotland

## How we evaluate misstatements

**29.** Misstatements totalling £675k were identified through the audit process. These related to the mis-classification of long-term creditors and the increase in the pension liability. All of these misstatements have been corrected in the audited version of the accounts.

**30.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

## Amendments to the accounts arising from legal and other judgements made after the accounts had been submitted for audit

**31.** Legal cases were brought against the government regarding the transition arrangements made in each of the pension schemes for judges and firefighters. These arrangements came into effect as part of the move from a Final Salary Pension Scheme to a Career Average Pension Scheme in 2015 and included certain protections for active members of the schemes. The claimants successfully argued, in the resultant Employment Tribunal hearing, that some elements of the protection measures were unlawful on the grounds of age discrimination. The Employment Tribunal's ruling on this matter was upheld by the Supreme Court in June 2019. As this would have an impact on the transition arrangements of all government backed pension schemes, finance officers instructed the actuary for Strathclyde Pension Fund to quantify the impact on Creative Scotland's pension fund liability. The actuary estimated that the impact from this case is an increase in past service costs, and thus an increase in the organisation's pension fund liability by £75k.

## Follow up of prior year recommendations

**32.** We have followed up actions agreed in our 2017/18 Annual Audit Report to assess progress with implementation. We have noted some progress of these prior year actions being implemented. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

# Part 2

## Financial management



### Main judgements

**Creative Scotland has appropriate and effective arrangements in place for financial management**

**Systems of internal control operated appropriately and effectively in 2018/19 with scope for improvements in the grant management system.**

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

### Financial performance in 2018/19

**33.** The main financial objective for Creative Scotland and Creative Scotland National Lottery Distribution Fund is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

**34.** Creative Scotland has reported a net expenditure outturn of £61.283 million resulting in a net deficit for the year against grant in aid funding of £0.275 million. The grant in aid allocation for 2018/19 was £61.135 million. Creative Scotland drew down £55.7 million of the funding and as outlined at paragraph 37 below, agreement was reached with Scottish Government that the remaining £6 million allocation due would be paid at the start of the 2019/20 financial year.

**35.** Creative Scotland National Lottery Distribution Fund incurred expenditure of £25.470 million and received income of £29.160 million resulting in a surplus of £3.69 million. This surplus was achieved despite a budgeted deficit of £0.097 million resulting in an overall variance to budget of £3.787 million. The variance can be attributed to the decline in lottery proceeds being less than anticipated. Also, total grants and project expenditure were £1.9 million below budget mainly due to targeted funds which were budgeted for not being finalised before the year end.

### 2018/19 financial position

**36.** The Statement of Financial Position summarises what is owned and owed by Creative Scotland and Creative Scotland National Lottery Distribution 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.

**37.** The financial statements show a net liability of £4.285 million for Creative Scotland. This is a movement of £6.098 million from the prior year net asset position of £1.813 million. The movement is attributable to the timing of Screen Unit grants being committed and contracted. The Scottish Government announced the Screen Unit in December 2017 which resulted in Creative Scotland not having the design and launch of the new funding programme in place for the beginning of 2018/19. Whilst grant in aid funding was committed and

contracted during 2018/19, the payment of some of the grants was not until April 2019. An agreement has been reached with the Scottish Government for the respective funds to be moved into the 2019/20 funding allocation to align grants committed with cash requirements.

**38.** Creative Scotland National Lottery Distribution Fund shows a net asset position of £0.724 million. This is in contrast to the net liability prior year position of £2.966 million. This is attributable to the year end cash balance being £3.5 million higher at March 2019 due to the award payments for some approved grant applications not being due until 2019/20.

## Budgetary processes

**39.** We reviewed Creative Scotland's budgetary processes and budget monitoring arrangements. The 2018/19 budget was scrutinised and discussed at the February 2018 Finance & General Purposes committee before being approved by the Board on 29 March 2018.

**40.** Management accounts were prepared monthly and reviewed by the Senior Leadership Team. Budgetary updates and were also taken to meetings of the Finance & General Purposes committee.

**41.** From our review of management account reports and review of committee papers we confirm that senior management and members receive regular, timely and up to date information on the financial position. We conclude that Creative Scotland has appropriate budgetary monitoring and control arrangements that allow members and officers to carry out effective scrutiny of its finances.

## Systems of internal control

**42.** 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 Creative Scotland has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**43.** Our work included consideration of the payroll, general ledger and grant management systems. We concluded that the controls tested were operating effectively, however we identified some additional controls or improvements that could be made within the grant management system.

**44.** Our review of the grant management system included a review of a sample of application and assessment forms. The assessment form documents the assessors review of the application and includes an assessment of the project against the fund's criteria. The assessor will identify strengths and weaknesses from the review of the application and then make an overall conclusion.

**45.** From our review we identified some enhancements to the current arrangements for consideration. Whilst we note that the application form and assessors form contain a lot of detail, we recommend that the application form should request details of company ownership and the declaration of any interests to ensure that any conflicts are known throughout the assessment.

**46.** Within the sample of grants reviewed we identified an instance where an application had been completed with the incorrect classification of a company i.e. limited by share, limited by guarantee. The applicant assessor did not identify this mis-classification within their review of the award.



### Recommendation 5

**Officers should consider enhancing the application form to include details of company ownership and declarations of interest. Officers should remind staff of the need for correct classification of companies within the system.**

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## Internal audit

**47.** We reviewed Creative Scotland's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could use the work of internal audit. We have taken cognisance of the internal audit review of financial systems and the grant management system.

**48.** In 2017/18 we raised the importance of addressing internal audit recommendations in a timely manner. An update on internal audit recommendations was presented to the June 2019 Audit and Risk committee. This informed members that 55 recommendations had reached their completion date. 35 of these had been fully implemented, 12 partially implemented, 7 had little or no progress and management had decided not to implement the final recommendation. Eight of the recommendations (4 partially complete and 4 with little or no progress) relate to the 2017/18 internal audit follow up report.



### Recommendation 6

**Officers should act to ensure that Internal Audit recommendations are actioned in accordance with agreed timescales.**

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## Standards of conduct for prevention and detection of fraud and error

**49.** Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

**50.** We have reviewed the arrangements in place to maintain standards of conduct including the Fraud Management Policy and Code of Conduct for Members. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

**51.** We have concluded that Creative Scotland has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

## National Fraud Initiative

**52.** 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.

**53.** NFI activity is summarised in [Exhibit 5](#). We note that Creative Scotland has undertaken work beyond the 14 recommended matches and currently 223 matches have been closed on the system. These include those matches classified as duplicate creditors. Whilst Creative Scotland has not identified any errors or frauds the June 2019 Audit and Risk Committee were informed of the identification of an employee breaching declarations requirements.

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## Exhibit 5 NFI activity



452

**Matches**



14

**Recommended for  
investigation**



223

**Completed/closed  
investigations**

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

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**54.** The results of NFI activity are reported regularly to the Audit and Risk Committee. From our work so far, we have concluded that Creative Scotland is pro-active in investigating matches and reporting the outcomes of NFI activity.

## Dependency on key suppliers

**55.** The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions. We have concluded through our discussions with senior management that dependency on key suppliers does not present a risk to Creative Scotland.



# Part 3

## Financial sustainability



### Main judgements

**Creative Scotland has adequate financial planning arrangements in place**

**Creative Scotland should continue to monitor funding allocations and consider the most efficient and effective ways to deliver its objectives and priorities with potentially decreasing resources.**

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.

### Financial planning

**56.** The Creative Scotland board approved the 2019/20 budget on 28 March 2019. This followed scrutiny and discussion of the budget approach at the Finance & General Purposes committee in February 2019.

**57.** Creative Scotland's grant in aid budget projects a break-even position in 2019/20. The National Lottery Distribution Fund has a budget deficit in 2019/20 of £1.2 million.

**58.** The budget approved by the board includes projections for a further 3 years, capturing expected cashflows to the end of 2022/23. Grant in aid is projected to break-even in each of the years to 2022/23. For the National Lottery Distribution Fund, the projection is for a surplus in each of the years from 2020/21.

**59.** The total operating cost budget for 2019/20 is 10.8% higher than the 2018/19 budget, an increase of £924k. The main reasons for the increased operating costs are the 2019/20 pay award (£0.3 million); additional full time posts relating to Organisational Development (0.2 million); vacant posts and Screen Scotland set up costs recharges (0.2 million) and an allocation for potential Organisational Development Costs (0.1 million).

### Changing landscape for public financial management and medium to long term financial planning

**60.** Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

**61.** A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

**62.** We reviewed the financial planning systems of Creative Scotland and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term. Creative Scotland is mainly funded from Scottish Government budget allocation through grant in aid and from National Lottery funding. The annual budget approved by the board includes projections for the year ahead and a further three years.

**63.** Over the past five years National Lottery funding has reduced from £34.882 million in 2014/15 to £28.626 million in 2018/19. There remains continued uncertainty around future levels of funding. There is a risk that a decline in funding from one or both sources will compromise Creative Scotland's ability to deliver outcomes and priorities identified in the 10 Year Plan and the Annual Plan.



### Recommendation 7

**Creative Scotland should continue to closely monitor funding allocations and consider the most efficient and effective ways to deliver its objectives and priorities with potentially decreasing resources.**

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## EU Withdrawal

**64.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**65.** Creative Scotland's risk register recognises risks around EU withdrawal, particularly the potential adverse impact on the organisation's strategy due to uncertainties over cultural policy, cultural exchange and the economy.

**66.** Creative Scotland and Creative Scotland National Lottery Distribution Fund have limited funding arrangements with European partners. They are predominately funded from the Scottish Government or the Lottery Fund. No significant workforce issues for the organisation have been identified.

**67.** We conclude that Creative Scotland is taking reasonable steps to prepare for the impact of EU withdrawal.

# Part 4

## Governance and transparency



### Main judgements

**Creative Scotland has adequate governance arrangements in place that support organisational decision making.**

**Creative Scotland has arrangements in place to demonstrate transparency but there is scope of improvement.**

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.

### Governance arrangements

**68.** Creative Scotland is supported by a Board of members who are appointed by, and accountable to, the Scottish Government. The Board has corporate responsibility for ensuring that Creative Scotland fulfils its aims and objectives, including delivery of its strategic objectives. The Board is required to meet at least four times a year in accordance with its Terms of Reference. The Board met on 6 occasions during 2018/19, with one of these times being for a Board members strategy day.

**69.** The Board is supported by three main standing committees: the Audit and Risk Committee; the Finance & General Purposes Committee and the Screen Committee.

**70.** We regularly attend the Audit and Risk Committee and conclude that papers presented are well prepared and are generally provided to members sufficiently in advance of meetings to permit review. Furthermore, we conclude that members are well prepared for the meetings and we are satisfied that member scrutiny is robust.

**71.** There are adequate arrangements in place which support governance and accountability and provide an appropriate framework for organisational decision making.

### Openness and transparency

**72.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. 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.

**73.** The Annual Plan and Annual Performance Review are published each year and can be accessed from the Creative Scotland website. The 2019/20 Annual Plan was approved at the March 2019 Board meeting.

**74.** Board and other committee meetings are held in private. Creative Scotland publishes approved Board minutes on the website, but no Board or committee

papers are available. At August 2019 the minutes of the Board meetings held on 18 July 2018, 18 December 2018 and 13 February 2019 have not been posted on the Creative Scotland website.

**75.** With increasing expectations for openness in the conduct of public business, Creative Scotland should continue to regularly revisit this area to ensure the public has access to relevant information. There is scope for improvement in practice, with prompt publication of minutes and other strategic policies.



### Recommendation 8

**Creative Scotland should ensure that minutes of board meetings and other strategic documents are available for public review via the website promptly following approval.**

## Performance report

**76.** In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of the performance report included in the annual report and accounts. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of a body's performance and, is essential in helping stakeholders understand the financial statements.

**77.** There are a number of characteristics which make for a high quality performance report. The incorporation of key performance targets within the performance report would help to illustrate the organisation's achievements and areas for improving outcomes.

## Regular Funding Review

**78.** An independent review of the RFO 2018/21 processes was announced by the Chair of Creative Scotland. Creative Scotland has taken cognisance of the review findings and has also undertaken work internally to review other funding models. The September 2019 Board meeting will review progress and arrangements going forward.

## Transparent reporting of financial and performance information

**79.** Creative Scotland has arrangements in place for the reporting of financial and performance information. The board will approve the budget, annual plan and performance reports after scrutiny from other committees. The Finance & General Purposes committee receive financial and performance papers to meetings of the committee.

## General Data Protection Regulation

**80.** The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts. Failure to comply with new GDPR data handling arrangements could result in Creative Scotland incurring significant fines.

**81.** As outlined in Exhibit 3, point 5, organisations are required to obtain consent from individuals prior to personal data being disclosed. For the purposes of the remuneration report, consent is required from both current and prior employees

who will be included within the remuneration tables. Creative Scotland should look to undertake this process earlier in future years to ensure that consent has been obtained in sufficient time.

# Part 5

## Value for money



### Main judgements

**Creative Scotland regularly monitors and reports performance to members.**

**Creative Scotland should identify performance indicators for which meaningful targets can be set and against which performance can be assessed.**

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

### Best value

**82.** *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. As outlined within the governance statement of the Annual Report and Accounts, the organisation is committed to a process of continuous development and improvement and takes cognisance of relevant reviews or developments that could drive improvements.

**83.** During 2018/19, Creative Scotland has completed a review of the regular funding process; commenced a wider review of funding models and overall strategy and appointed external consultants to support the organisational development programme.

### Performance management

**84.** The performance of Creative Scotland is monitored by the Board and supporting committees. The Finance & General Purposes committee assess financial performance through receipt of regular management reports and the Audit and Risk Committee receive reports from Internal Audit that evaluate the systems of internal control.

**85.** Creative Scotland has a 10-year plan 'Unlocking Talent Embracing Ambition' which sets out five ambitions. Each ambition has priorities which are aligned to the Scottish Government's National Performance Framework. Creative Scotland's Annual plan sets out the planned activity to support the delivery of these ambitions and priorities.

**86.** In December of each year, the Annual Review of Performance is published. Within this report, performance indicators are measured against baseline measures. Targets are not set for most performance indicators thus limiting the scope to assess whether ambitions and priorities are being achieved, although we do note that there are performance indicators in respect of service delivery. As concluded in the prior year annual audit report, Creative Scotland should build on this approach and develop a range of targets which could demonstrate progress against the performance indicators.



## Recommendation 9

**Creative Scotland should identify performance indicators for which meaningful targets can be set and against which performance can be assessed.**

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**87.** We concluded that Creative Scotland has a performance management framework in place which could be enhanced by the identification of performance indicators with meaningful targets which performance could be assessed against.

### Overview of service performance

**88.** As noted above, service performance is the one area where targets are set. In December 2018, the 2017/18 Annual Review was published, and the following targets were disclosed:

- 90% of Funding applications to be processed within the specified timeframe – achieved 92%
- 90% of initial payments to successful applicants paid within the specified timeframe – achieved 100%.
- 90% of invoices paid within 10 working days – achieved 76%.

**89.** Service performance is not reported in the statement of accounts. Performance will be reported within the Annual Review that is due to be published in December 2019.

### National performance audit reports

**90.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 several reports were published which are of direct interest to Creative Scotland. These are outlined in [Appendix 3](#).

**91.** Creative Scotland has arrangements in place for considering and reviewing national reports including any locally agreed actions.

# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Performance Reporting</b></p> <p>The Financial Reporting Manual requires audited bodies to disclose within the statement of accounts information on its key performance measures and how it measures performance against those.</p> <p>An interim approach was agreed for 2018/19, however, arrangements need to be put in place to identify key performance indicators and collate reporting information for these within the 2019/20 annual accounts timescales.</p> <p><b>Risk</b></p> <p>There is a risk that the statement of accounts does not fully comply with the reporting framework.</p>	<p>Officers should enhance the reporting of performance within the statement of accounts to comply with the reporting framework.</p> <p>Performance is disclosed in the Annual Review published later in the year. Staff should arrange to gather data on key performance indicators earlier to permit incorporation in the Annual Report and Accounts.</p> <p><a href="#">Exhibit 3, point 1</a></p>	<p>The Performance review section explains that performance reporting occurs in the separately published Annual Review document which cover both National Lottery and Creative Scotland activity.</p> <p>The current disclosures comply with the reporting framework by giving an overview of the performance reporting mechanisms in place at Creative Scotland and provide outturns for key service deliverables.</p> <p>We will investigate what further performance reporting measures can be included for the 2019/20 accounts, following the completion of our internal funding and strategy reviews.</p>
2	<p><b>Gender breakdown of employees</b></p> <p>The Financial Reporting Manual (FReM) requires a breakdown of employee groups by gender. The disclosure within the Remuneration and Staff Cost Report does not include the Chair and other non-executive board members.</p> <p><b>Risk</b></p> <p>There is a risk that the statement of accounts does not fully comply with the reporting framework.</p>	<p>Officers should put in place arrangement to record and report all disclosures required for the publication of the accounts.</p> <p><a href="#">Exhibit 3, point 4</a></p>	<p>Creative Scotland does not currently hold sensitive personal data (such as sex) on board members and the collection and storage of such data would require us to comply with our data protection and privacy policies to ensure data was held lawfully and securely. We will investigate the legality of collecting and storing this data for 2019/20.</p> <p>Finance Manager 31 March 2020</p>

Director of Finance

July 2020





No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p><b>General Data Protection Requirements</b></p> <p>Employers are required to obtain advise individuals in advance of personal data such as salaries and pensions being disclosed.</p> <p>During the audit process, we noted that this notification had still not been issued to all individuals disclosed in the unaudited remuneration report.</p> <p><b>Risk</b></p> <p>There is a risk that Creative Scotland does not comply with General Data Protection Requirements.</p>	<p>Officers should timetable the process of advising individuals of the personal data being included within the annual report and accounts earlier in the accounts preparation process.</p> <p><a href="#">Exhibit 3, point 5</a></p>	<p>Notification of the intention to publish personal data regarding SLT members was issued to all current and former members in advance of the accounts being published.</p> <p>Finance Manager Implemented</p>
4	<p><b>Trade Union Relations Disclosure</b></p> <p>The Remuneration Report includes a disclosure for Trade Union Relations in line with the Trade Union (Facility Time Publications Requirements) Regulations 2017. Some information was outstanding in the unaudited accounts.</p> <p>The Regulation also requires publication of this information on the website by 31 July 2019 and this deadline has not been met.</p> <p><b>Risk</b></p> <p>There is a risk that Creative Scotland fail to meet their reporting obligations in respect of Trade Union disclosures.</p>	<p>Finance and HR staff should ensure that procedures in place enable future reporting requirements to be met, both in the statement of accounts and through publication on the Creative Scotland website.</p> <p><a href="#">Exhibit 3, point 8</a></p>	<p>There was a small delay in clarifying one of the disclosures with the trade union representatives to ensure it complied with their understanding of the Regulations.</p> <p>The disclosures will then be uploaded to the CS website.</p> <p>Finance Manager 30 September 2019</p>
5	<p><b>Grant Management System</b></p> <p>Our audit work on the grant management system identified some enhancements around the details requested on the application form around company ownership and conflicts of interest. It also identified a mis-classification of a company.</p>	<p>Officers should consider enhancing the application form to include details of company ownership and declarations of interest. Officers should remind staff of the need for correct classification of companies within the system.</p> <p>Paragraph 43-45</p>	<p>Agreed – As part of the funding review we will consider requiring applicants to provide company ownership details for companies limited by shares (who make up c.4% of current applicants) and requiring all applicants to declare any conflicts interest relating to the proposed funded activity. Officers will be reminded that company type should be correctly classified.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p><b>Risk</b></p> <p>There is a risk that conflicts of interest are not known at the time of assessing a funding application.</p>		<p>Director of Finance</p> <p>April 2020</p>
6	<p><b>Internal Audit Recommendations</b></p> <p>There are several Internal Audit recommendations dating to the 2017/18 follow up review that have not been implemented within agreed timescales.</p> <p><b>Risk</b></p> <p>There is a risk that improvement actions to address control weaknesses identified by internal audit are not realised with required timescales.</p>	<p>Officers should act to ensure that Internal Audit recommendations are actioned in accordance with agreed timescales.</p> <p>Paragraph 47</p>	<p>Internal audit recommendations are tracked and reported to the Senior Leadership Team and the Audit and Risk Committee on a regular basis. Any delay in implementation is discussed and revised dates are set out if required.</p> <p>Director of Finance</p> <p>31 March 2020</p>
7	<p><b>Financial sustainability</b></p> <p>Any decrease in future funding levels from the Scottish Government and/or falling sales from the National Lottery may adversely impact on Creative Scotland's ability to fund projects in the future or to achieve key priorities and outcomes.</p> <p><b>Risk</b></p> <p>There is a risk that reduced funding will negatively impact on Creative Scotland's ability to deliver priorities and ambitions.</p>	<p>Creative Scotland should continue to closely monitor funding allocations and consider the most efficient and effective ways to deliver its objectives and priorities with potentially decreasing resources.</p> <p>Paragraph 62</p>	<p>Agreed</p> <p>Director of Finance</p> <p>Ongoing</p>
8	<p><b>Transparency</b></p> <p>Board minutes have not been posted on the Creative Scotland website promptly following approval.</p> <p><b>Risk</b></p> <p>There is a risk that Creative Scotland is perceived to operate in a manner that is not open and transparent, leading to reputational damage.</p>	<p>Creative Scotland should ensure that minutes of board meetings and other strategic documents are available for public review via the website promptly following approval.</p> <p>Paragraph 73-74</p>	<p>The minutes of the February 2019 meeting were not posted on the website timeously due to an administration error. This has now been resolved.</p> <p>Senior Executive Assistant</p> <p>Implemented</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
9	<p><b>Performance Targets</b></p> <p>Performance indicators are measured against baseline outcomes from prior years rather than against forward-looking targets.</p> <p><b>Risk</b></p> <p>There is a risk that without setting targets Creative Scotland cannot fully measure the impact it has in delivering ambitions and priorities.</p>	<p>Creative Scotland should identify those performance indicators for which meaningful targets can be set and against which performance can be assessed.</p> <p>Paragraph 85</p>	<p>Performance indicators will be reviewed for the 2020/21 planning process</p> <p>Board</p> <p>31 March 2020</p>

### Follow up of prior year recommendations

b/f	<p><b>Remuneration working papers</b></p> <p>We identified differences in the remuneration of SLT members due to methodology used by officers.</p> <p><b>Risk:</b> There is a risk that remuneration will be wrongly stated in the accounts.</p>	<p>Creative Scotland should engage with their their-party payroll service provider to identify concise remuneration information that could be provided to simplify the process of reporting remuneration in the annual statement of accounts.</p>	<p><b>Updated response:</b> The remuneration of the SLT members with the Annual Report and Accounts was correctly stated.</p> <p><b>Responsible Officer:</b> Finance Manager</p> <p><b>Revised date:</b> N/A - Implemented</p>
b/f	<p><b>Trade Union Relations Disclosure</b></p> <p>The Trade Union Relations disclosure in the Remuneration report does not meet the requirements of The Trade Union (Facility Time Publication Requirements) Regulations 2017.</p> <p>The regulations also required publication of this information on the website by 31 July 2018 and this deadline has not been met.</p> <p><b>Risk</b></p> <p>There is a risk that Creative Scotland fail to meet their reporting obligations in respect of Trade Union disclosures.</p>	<p>Officers should put procedures in place to capture the required information that will permit this reporting requirement to be met, both in the statement of accounts and through publication on the Creative Scotland website.</p>	<p><b>Updated response:</b> Outstanding information was noted within the unaudited accounts in relation to Trade Union Relations disclosures.</p> <p>Creative Scotland have not met the regulation requirements to publish information on their website by the deadline of 31 July 2019.</p> <p><b>Revised action:</b> see action plan point 4</p>
b/f	<p><b>Performance reporting</b></p> <p>The Financial Reporting Manual requires audited bodies to disclose within the statement of accounts</p>	<p>Officers should enhance reporting of performance in the statement of accounts to fully comply with the reporting framework and the framework</p>	<p><b>Updated response:</b> An interim arrangement to performance reporting was agreed for 2018/19, however work is required to comply with</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>information on its key performance measures and how it measures performance against those measures.</p> <p>From review of the Performance Analysis section of the accounts we noted that there are no details of performance against key performance measures.</p> <p><b>Risk</b></p> <p>There is a risk that the statement of accounts does not fully comply with the reporting framework.</p>	<p>agreement between Creative Scotland and the Scottish Government.</p> <p>Performance is disclosed in the Annual Review published later in the year. Staff should arrange to gather data earlier to permit reporting within the Annual report and accounts.</p>	<p>the requirements of the Financial Reporting Manual in relation to reporting information within the accounts around key performance measures and how these are measured.</p> <p><b>Revised action: see action plan point 1</b></p> <p><b>Responsible officer:</b> Director of Finance and Funding Operations</p>
b/f	<p><b>Internal Audit Recommendations</b></p> <p>There are several Internal Audit recommendations in respect of the grant management system that have not been implemented in accordance with agreed timescales.</p> <p><b>Risk</b></p> <p>There is a risk that the controls systems do not operate effectively.</p>	<p>Officers should act to ensure that Internal Audit recommendations are implemented in accordance with agreed timescales.</p>	<p><b>Updated response:</b> Eight internal audit recommendations past their agreed implementation date were included within the 2017/18 follow up review.</p> <p><b>Revised action:</b> see action plan point 6</p>
b/f	<p><b>Financial Sustainability</b></p> <p>Any decrease in future funding levels from the Scottish Government and/or falling sales from the National Lottery may impact on the future funding of projects and achievement of priorities.</p> <p><b>Risk</b></p> <p>There is a risk that reduced funding will negatively impact on Creative Scotland's ability to deliver its ambitions and priorities.</p>	<p>Creative Scotland should continue to closely monitor funding allocations and consider the most efficient and effective ways to deliver its objectives and priorities with potentially decreasing resources.</p>	<p><b>Updated response:</b> The 2019/20 financial plan includes projections to 2021/22. This includes expected funding levels from both the Scottish Government and National Lottery.</p> <p><b>Revised action:</b> see action plan point 7</p>
b/f	<p><b>RFO Funding</b></p> <p>An independent review of the 2018/21 RFO exercise was instigated by the Chair of the Board following criticism of the decision-making process.</p>	<p>Creative Scotland should give due consideration to findings of the independent review and implement recommendations. Any change in approach should ensure the board has</p>	<p>Creative Scotland have reviewed other funding models to consider options for funding arrangements going forward.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p><b>Risk</b></p> <p>There is a risk that recommendations identified from the independent review are not fully implemented resulting in further reputational damage to Creative Scotland.</p>	<p>sufficient time for scrutiny of funding proposals.</p>	<p>Cognisance has been taken of the findings of the funding review.</p>
<b>b/f</b>	<p><b>Transparency</b></p> <p>Board minutes and the Annual Plan have not been posted on the Creative Scotland website promptly following approval.</p> <p><b>Risk</b></p> <p>There is a risk that Creative Scotland is perceived to operate in a manner that is not open and transparent, leading to reputational damage.</p>	<p>Creative Scotland should ensure that minutes of board meetings are recorded accurately and available for public review via the website promptly following approval.</p> <p>Published documents should also be made available on the website promptly following board approval.</p>	<p><b>Updated response:</b> Board minutes are not routinely available on the Creative Scotland website following approval.</p> <p><b>Revised action:</b> see action plan point 8</p>
<b>b/f</b>	<p><b>Performance Targets</b></p> <p>Performance indicators are measured against baseline outcomes from prior years rather than against forward-looking targets.</p> <p><b>Risk</b></p> <p>There is a risk that without setting targets Creative Scotland cannot fully measure the impact it has in delivering ambitions and priorities.</p>	<p>Creative Scotland should identify those performance indicators for which meaningful targets can be set and against which performance can be assessed.</p>	<p><b>Updated response:</b> Performance indicators are measured against baseline outcomes from prior years rather than forward looking targets.</p> <p><b>Revised action:</b> see action plan point 9</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
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></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 to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Detailed testing of grant income and expenditure to ensure this has been accounted for appropriately.</p> <p>Review of the apportionment of costs and accounting estimates for reasonableness.</p> <p>Focussed testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>No unusual or inappropriate transactions were identified as part of our detailed journal testing.</p> <p>Apportionment of costs were consistent with the recharge policy approved by the Finance and General Purposes Committee.</p> <p>Focussed testing on accruals and prepayments did not identify any instances of management override of controls.</p> <p>As part of our substantive testing we considered whether transactions were within the normal course of business. When selecting samples, we reviewed ledger or transactions listings for any transactions that were outside the normal course of business. Our testing did not identify any issues.</p> <p><b>Conclusion: We did not identify any incidents of management override of controls.</b></p>
<p><b>2 Risk of fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. CS &amp; CSNLDF incur significant expenditure on the award of grants and we therefore recognise this as a financial statements risk.</p>	<p>Walk through of the grant management system.</p> <p>Detailed testing of grant expenditure to ensure all conditions have been met to recognise the expense in the financial statements.</p>	<p>A review of the grant management system was undertaken and some recommendations for improvement have been made.</p> <p>Recognition of expenditure in the financial statements was in accordance with accounting standards.</p> <p><b>Conclusion: We did not identify any instances of fraud over expenditure.</b></p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>3 Estimation and judgements</b></p> <p>Almost all expenditure incurred by CS &amp; CSNLDF relates to grant funding awarded. There is a degree of subjectivity in the measurement of grants awarded and we recognise that this subjectivity represents a risk of misstatement in the financial statements.</p>	<p>Detailed testing of grant expenditure to ensure it has been accounted for correctly.</p> <p>Focussed testing of year end estimates and assumptions.</p>	<p>The grant expenditure testing undertaken has concluded that expenditure recognition within the financial statements was in accordance with accounting standards and applied consistently.</p> <p><b>Conclusion: Estimations and judgements made in the financial statements are reasonable and supported by evidence.</b></p>
<p><b>4 Performance Reporting</b></p> <p>The Financial Reporting Manual requires audited bodies to disclose within the statement of accounts information on its key performance measures and how it measures performance against these measures.</p>	<p>Review the Performance Report to ensure compliance with the FReM.</p>	<p>The 2018/19 Annual Report and Accounts includes details of the organisation's outcomes and performance measures for their five ambitions.</p> <p>This is an interim arrangement and processes should be established to ensure that organisation key performance indicators are identified for reporting and that quantitative results against each indicator can be disclosed in next year's performance report.</p> <p><b>Conclusion: The current disclosure is not in compliance with the FReM. Action plan point 1.</b></p>
<b>Financial statements issues and risks for CSNLDF only</b>		
<p><b>5 Risk of fraud over income</b></p> <p>Creative Scotland &amp; Creative Scotland National Lottery Distribution Fund receives approximately £0.6 million of income from sources other than the National Lottery. The extent and timing of receipt of this income means that, in accordance with ISA 240, there is an inherent risk of fraud or error that requires an audit response.</p>	<p>Substantive testing across different income streams focussing on areas of greatest risk.</p>	<p>Focussed testing of income from both the National Lottery and other streams were carried out.</p> <p>We found no errors in the recognition of income from the work undertaken.</p> <p><b>Conclusion: We did not identify any instances of fraud over income.</b></p>
<b>Wider dimension issues and risks</b>		
<p><b>6 Financial sustainability</b></p> <p>The Scottish Government increased the Grant in Aid budget awarded to Creative Scotland in 2018/19 to offset the drop in Lottery funding.</p> <p>There is a risk that this may not be sustainable and Creative</p>	<p>Regular review of CS &amp; CSNLDF Management Accounts to assess performance and assumptions.</p> <p>Review of longer term financial plans.</p>	<p>Reviewed the management accounts papers presented to the Finance and General Purposes committee on a regular basis to monitor the ongoing financial position.</p> <p>Reviewed the financial plan for 2019/20 which includes</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Scotland should ensure it has appropriate budget monitoring and longer term planning arrangements in place to address this challenge.</p>		<p>projections for 2020/21 and 2021/22.</p> <p><b>Conclusion: The annual budget for 2019/20 includes projections to 2021/22. This includes assumptions on long term funding from the Scottish Government and from the National Lottery funding.</b></p> <p><b>Management accounts were found to be subject to regular review by the Senior Leadership Team and by the Finance and General Purposes committee.</b></p>
<p><b>7 Value for money</b></p> <p>Performance indicators are measured against prior year baseline outcomes rather than forward looking targets. There is a risk that without setting targets Creative Scotland cannot fully measure the impact it has in delivering ambitions and priorities.</p>	<p>We will review performance reports prepared for the Board to assess progress being made against core objectives and to determine the extent to which targets are set and used to monitor progress.</p>	<p>In the absence of performance reports, we considered the performance indicators published in the 2018/19 Annual Plan. Although there are several delivery indicators which permit evaluation against a defined target, most performance indicators will again be compared to prior year baseline values rather than aspirational targets.</p> <p><b>Conclusion: This risk remains. See Appendix 1, action plan point 9.</b></p>



# Appendix 3

## Summary of national performance reports 2018/19

		 <b>2018/19 Reports</b>	
Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

### Central Government relevant reports

[\*Scottish Fire and Rescue Service: an update\*](#) – May 2018

[\*Scotland's colleges 2018\*](#) – June 2018

[\*The National Fraud Initiative in Scotland 2016/17\*](#) – July 2018

[\*Forth Replacement Crossing\*](#) – August 2018

[\*Major project and procurement lessons\*](#) – August 2018

[\*Superfast broadband for Scotland: further progress update\*](#) – September 2018

# Creative Scotland and Creative Scotland National Lottery Distribution Fund

## 2018/19 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)