

sportscotland Group and Lottery Fund

2018/19 Annual Audit Report



 AUDIT SCOTLAND

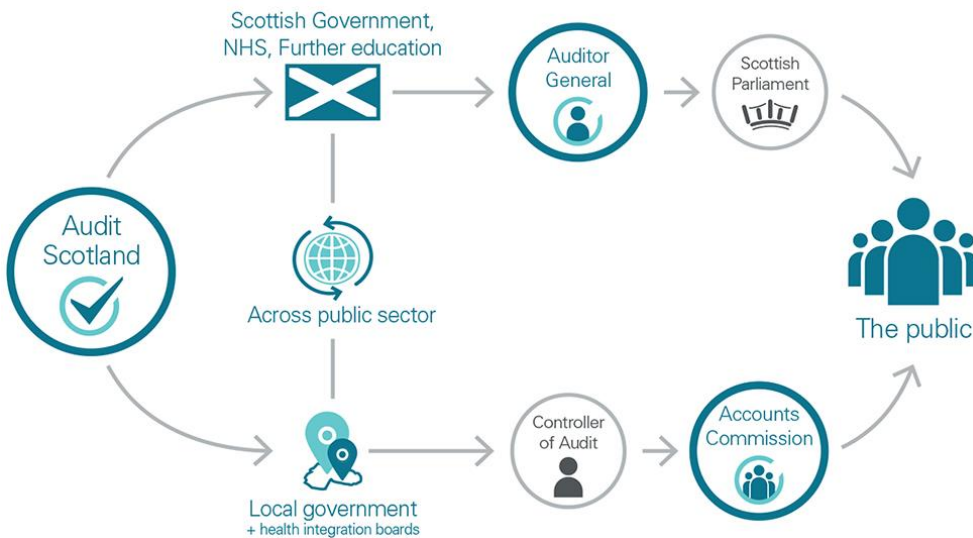
Prepared for the sportscotland Board and the Auditor General for Scotland

August 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

2018/19 annual report and accounts

- 1 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 2019 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.
- 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 sportscotland have 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 some areas.

Financial sustainability

- 6 sportscotland Group and Lottery fund makes 4 year “in principal” commitments, including scenario planning for possible budget changes.
- 7 We do not have concerns about the overall financial position however we note the budgeted income for sportscotland Lottery Fund has decreased for 2019/20 and that the Scottish Government have agreed to underwrite this to the value of £3.4 million.

Governance and transparency

- 8 sportscotland has effective governance arrangements in place that support the scrutiny of decisions.
- 9 Business is conducted in an open and transparent way, however arrangements should be kept under review.

Value for money

- 10 sportscotland has an appropriate and effective performance management framework in place which supports the achievement of value for money.
- 11 Performance levels in 2018/19 were generally in line with targets.

Introduction

1. This report summarises the findings from our 2018/19 audit of sportscotland Group and Lottery Fund.

2. The scope of our audit was set out in our Annual Audit Plan presented to the 27 February 2019 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of sportscotland Group and Lottery Fund's 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](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

Adding value through the audit

3. We add value to sportscotland Group and Lottery Fund by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

- reporting our findings and conclusions in public and sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

4. In so doing, we aim to help sportscotland Group and Lottery Fund promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

5. sportscotland Group and Lottery Fund 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. It is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

6. 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. 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.

7. 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.

8. 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.

9. 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 £47,140 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. This report is addressed to sportscotland Group and Lottery Fund and to the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

11. 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 both sportscotland Group and the Lottery Fund give a true and fair view of the state of affairs of these bodies as at 31 March 2019 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.

The expenditure and income in the financial statements were in accordance with 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.

Audit opinions on the annual report and accounts

12. The annual report and accounts for the year ended 31 March 2019 were approved by the sportscotland board on 28 August 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.

13. 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

14. We received the unaudited financial statements for both sportscotland Group and the Lottery Fund on 3 June 2019 in line with our agreed audit timetable. The narrative sections including the performance report, accountability report and remuneration and staff report were provided during the audit process. There were also several notes to the accounts which were not completed until the audit team had completed the on-site work.

(refer [Appendix 1](#), action point 3)

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. There was significant delay in obtaining audit evidence to support the exit packages included in the remuneration and staff report. This was not received until shortly before the conclusion of the audit. These factors impacted on the overall efficiency of the audit process.

(refer [Appendix 1](#), action point 2)

16. The working papers provided with the unaudited financial statements were of a reasonable standard and finance staff provided good support to the audit team throughout the audit process.

Whole of Government Accounts

17. 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.

Risk of material misstatement

18. [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.

19. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Materiality

20. 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.

21. Our assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. With regard to the annual accounts we assess the materiality of uncorrected misstatements both individually and collectively.

22. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they should be revised. The revised levels are summarised in [Exhibit 2](#). Materiality levels for sportscotland Group were increased slightly, but the materiality for the Lottery Fund was lowered.

Exhibit 2

Materiality values

Materiality level	Group Planning	Group Revised	Lottery Fund Planning	Lottery Fund Revised
Overall materiality	£385,000	£421,000	£300,000	£278,000
Performance materiality	£193,000	£210,000	£150,000	£139,000
Reporting threshold	£10,000	£10,000	£9,000	£8,000

Source: sportscotland Group and Lottery Fund Annual Audit Plan 2018/19

Significant findings from the audit in accordance with ISA 260

23. 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.

24. 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

25. We have no significant findings to report around the qualitative aspects (e.g. accounting policies, accounting estimates / judgements and impact of uncertainties) of the 2018/19 accounting practices.

Exhibit 3 Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Pension liabilities</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 Group pension liability of £945,000.</p>	<p>This has been adjusted in the audited accounts of sportscotland Group.</p>
<p>2. Staff cost allocation</p> <p>The 2018/19 allocation of staff costs between sportscotland Group and Lottery Fund was incorrect, resulting in staff costs being understated in the Group accounts by £112,000 and overstated by the same amount in the Lottery Fund accounts.</p>	<p>This has been adjusted in the audited accounts of the sportscotland Group and Lottery Fund.</p> <p>(refer Appendix 1, action plan)</p>
<p>3. Lottery Fund Grants – hard commitments carried forward</p> <p>During the audit process we identified a difference between the unaudited accounts and the corresponding working papers which supported the Lottery Fund's grant commitments. The hard commitments in the unaudited accounts were understated by £80,000.</p>	<p>This has been adjusted in the audited accounts of sportscotland Lottery Fund.</p>
<p>4. Capital Expenditure</p> <p>The audit process identified £28,000 of revenue expenditure which should have been treated as capital. This impacted on both the sportscotland Group and Lottery Fund. The sportscotland Group revenue expenditure was overstated by £13,000 and the Lottery Fund was overstated by £15,000. As capital expenditure is not allocated to the Lottery Fund the impact was that the non current assets in the sportscotland Group were understated by £28,000.</p>	<p>This has been adjusted in the audited accounts of the sportscotland Group and Lottery Fund.</p>

Issue	Resolution
<p>5. Prepayments</p> <p>There was a prepayment of £30,000 which was not sufficiently supported by audit evidence. During discussions with finance as part of the audit it was agreed that this represented an overstatement in the prepayment balance.</p>	<p>This has been adjusted in the audited accounts of the sportscotland Group.</p>

Source: Audit Scotland

How we evaluate misstatements

26. There were no material adjustments to the unaudited annual report and accounts arising from our audit. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements.

27. 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.

Follow up of prior year recommendations

28. sportscotland Group and Lottery Fund has made some progress in implementing our prior year audit recommendations. For actions not yet fully complete, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

sportscotland 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 some areas.

Financial performance in 2018/19

29. 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).

30. sportscotland Group has received £34.9 million in Departmental Expenditure Limits (DEL) from the Scottish Government. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#).

Exhibit 4

Performance against DEL in 2018/19

Performance	Initial budget £m	Final budget £m	Outturn £m	Over (under) spend £m
Resource DEL	34.900	34.900	34.900	0
Capital DEL	0	0	0	0
Total DEL	34.900	34.900	34.900	0

Source: sportscotland Group Annual Report and Accounts 2018/19

31. This grant in aid income was supplemented by other income of £6.0 million including £3.9 million from Scottish Sports Council Trust Company and £2.1 million from other operating income such as high performance income and rental income.

32. sportscotland Lottery Fund has reported an expenditure outturn of £27.6 million (2017/18: £30.1 million), income of £26.4 million (2017/18: £26.7 million) and a balance called down from NLDF of £24.6 million (2017/18 £28.7 million).

2018/19 financial position

33. 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.

34. The financial statements show that sportscotland Group has net assets of £13.9 million, a decrease of £7.2 million, largely attributable to the increase in pension liability of £7.3 million. The pension scheme remains in a deficit position with liabilities exceeding assets by £13.5 million.

35. sportscotland Lottery Fund has net assets of £33.6 million, a decrease of £1.3 million from the prior year. This is largely attributable to an increase in grants due within one year of £4.2 million offset by a decrease in trade creditors of £2 million.

Budgetary processes

36. We reviewed sportscotland's budget setting and monitoring arrangements. From our review of budget monitoring reports and review of committee papers we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position. We concluded that sportscotland has effective budgetary processes that allow members and staff to carry out effective scrutiny of its finances.

Systems of internal control

37. As part of our audit we seek to obtain an understanding of the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to confirm the control environment that supports the preparation of the financial statements. Our findings from this work were included in the management report presented to the Audit Committee on 26 June 2019. We concluded that controls had improved and were, in general, operating satisfactorily, however we suggested enhancements which would further strengthen the control environment.

Internal audit

38. The internal audit function for sportscotland Group and Lottery Fund is carried out by BDO LLP. We reviewed the 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 confirmed that the internal audit service complies with the main requirements of the Public Sector Internal Audit Standards, however due to timing of reports, we did not place any formal reliance on their work.

Dependency on key suppliers

39. 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 discussions with senior management that dependency on key suppliers does not present a risk to sportscotland.

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 Group and Lottery fund makes 4 year “in principal” commitments, including scenario planning for possible budget changes.

We do not have concerns about the overall financial position however we note the budgeted income for sportscotland Lottery Fund has decreased for 2019/20 and that the Scottish Government have agreed to underwrite this to the value of £3.4 million.

Financial planning

40. sportscotland published its 2019/20 draft budget in June 2019 with a resource allocation of £32.6 million which is £0.9 million (2.8%) more than the initial 2018/19 budget allocation. Additional funding of £3.4 million is being provided to compensate for reductions in National Lottery Funding following discussions with Scottish Government.

41. The budget projects a breakeven position across both bodies, however if the National Lottery income exceeds £24 million, the £3.4 million underwrite will be reduced by an equivalent value.

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

42. 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.

43. 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.

44. We reviewed the financial planning systems of sportscotland and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term. They continue to face additional uncertainty with reductions in National Lottery funding in recent years.

45. sportscotland makes 4 year “in principal” commitments to Sports Governing Bodies and Local Authorities which are subject to funding being received. In alignment with the length of these commitments, financial plans are prepared using sensitivity analysis and scenario planning for possible budget changes and are regularly reviewed by senior management.

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

Part 4

Governance and transparency



Main judgements

sportscotland has effective governance arrangements in place that support the scrutiny of decisions.

Business is conducted in an open and transparent way, however arrangements should be kept under review.

Governance arrangements

46. 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 2019, the sportscotland Board consisted of 12 non-executive members, there are 9 members of the Trust Company Board, of whom 2 are also members of the sportscotland Board. 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.

47. 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 the scrutiny provided by members is robust.

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

Openness and transparency

49. 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.

50. Board and other committee meetings are held in private. sportscotland publishes approved Board minutes on the website but no Board or committee papers are available. With increasing expectations for openness in the conduct of public business, sportscotland should continue to regularly revisit this area to ensure the public has access to relevant information.

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

Performance report

51. 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.

52. There are a number of characteristics which make for a high quality performance report. The performance report could be improved by being more concise and by more effectively summarising the successes and challenges in the year being reported, as well as risks and challenges for the future.

Transparent reporting of financial and performance information

53. 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.

54. The financial and performance reporting provides a balanced picture to support robust scrutiny, but transparency of these reports could be improved by making them, or key details within them, more available to the public

EU Withdrawal

55. 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.

56. sportscotland has included the potential impact of EU withdrawal as a risk in their Corporate Risk Register, noting that the most significant possible impact will be on travelling internationally and staff who are not British passport holders. They have also discussed the implications of EU withdrawal with their insurers as part of their premium negotiations for 2019/20.

57. sportscotland have taken sufficient steps to prepare for and address EU withdrawal, which are proportionate to the extent to which they are likely to be affected.

Standards of conduct for prevention and detection of fraud and error

58. 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.

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. We have concluded that sportscotland Group and Lottery Fund 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

60. 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.

61. NFI activity is summarised in [Exhibit 5](#) and we note that all recommended matches have been completed with no errors or frauds found.

Exhibit 5 NFI activity



1,116

Matches



14

**Recommended for
investigation**



14

**Completed/closed
investigations**

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

62. Results of NFI activity are reported to the Audit and Risk Committee. In our work so far, we have concluded that sportscotland is pro-active in investigating matches and reporting the outcomes of NFI activity.

Part 5

Value for money



Main judgements

sportscotland has an appropriate and effective performance management framework in place which supports the achievement of value for money.

Performance levels in 2018/19 were generally in line with targets.

Best value

63. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) set out the accountable officer's duty to ensure that arrangements are in place 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.

Performance management

64. The performance of sportscotland Group and Lottery Fund is monitored by the Board against several performance targets which support the delivery of the Scottish Government's national performance framework. These targets and the associated plans are set out in the Strategic Plan.

65. The Board is also kept well informed of performance across other areas of activity and responsibility, for which detailed review and scrutiny of performance lies with the Audit and Risk Committee which meets quarterly, and which we regularly attend. In addition, we review Board and committee papers and minutes to gain an insight into how well performance is scrutinised.

66. We concluded that sportscotland has an effective performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.

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. In 2018/19 several reports were published which may be of interest as outlined in [Appendix 3](#).

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

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Staff cost allocations</p> <p>The allocation of staff costs between sportscotland Group and the Lottery Fund were incorrect due to the 2017/18 allocation being used. This was amended, but similar issues were identified in the prior year.</p> <p>Risk</p> <p>There is a risk that staff cost allocations will not be correctly applied in future years.</p>	<p>The correct allocations of staff costs should be kept up to date in the ledger system, and the allocation of staff costs between sportscotland Group and the Lottery Fund should be checked by finance staff against the agreed percentages before the staff costs note is provided to audit.</p> <p>Exhibit 3, point 1</p>	<p>Agreed, further controls have been introduced to avoid this error recurring.</p> <p>B Menzies June 2019</p>
2	<p>Exit packages</p> <p>Supporting documentation for exit packages was not received until the completion stage of the audit.</p> <p>Risk</p> <p>Audit of the exit packages is inefficient, and there is a risk that assurance over the disclosures could not be obtained before issue of the Annual Audit Report, which would have impacted upon the audit opinion.</p>	<p>Audit evidence should be provided promptly and complete. sportscotland should have a formalised policy in place for voluntary exits and redundancy. Supporting documentation for exit packages should be in alignment with this.</p>	<p>Exits were resultant from “without prejudice” discussions therefore no supporting documentation other than final agreement from individuals. Exit packages were approved by Director/SMT.</p> <p>No redundancy policy in place due to the current Scottish Government “No Redundancy Policy”. Any voluntary severance or exit packages are aligned to Civil Service Compensation.</p> <p>Agree that sportscotland should have its own version of this policy.</p> <p>J Dixon August 2019.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>Submission of financial statements and working papers for audit</p> <p>The narrative sections of the annual report, including the audited parts of the remuneration and staff report, were received later in the audit process. A number of notes to the accounts were not provided in complete form until the audit team had left the site.</p> <p>Risk</p> <p>The audit process is inefficient, resulting in difficulties with achieving completion deadlines.</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.</p>	<p>We will look to improve our processes in accounts preparation, in liaison with the auditors to minimise the delays which occurred this year.</p> <p>B Menzies March 2020</p>

Follow up of prior year recommendations

b/f	<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.</p>	<p>Refer to action point 3 above</p>
b/f	<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 to 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.</p>	<p>Partially actioned – the payroll reconciliation has improved, however there were some issues in agreeing the split of staff costs disclosed in the financial statements.</p> <p>Refer to action point 1 above</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	<p>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.</p>	<p>Partially actioned – the accounting for grants has not changed, however the working papers have been made clearer and accountants at sportscotland took time to make sure that these were understandable to the auditors.</p>
b/f	<p>Revaluation Reserve</p> <p>sportscotland Group hold a revaluation reserve of £0.8 million as at 31st March 2019, 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.</p>	<p>Actioned – A review of the revaluation reserve took place, and the figure in the accounts has been agreed.</p>
b/f	<p>Asset Verification</p> <p>Formal verification checks on the completion 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.</p>	<p>Partially actioned – We were able to gain assurance from the work of the Trust company auditors that formal asset verification checks had taken place, however further improvements are planned.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	<p data-bbox="245 405 512 465">Medium to long term financial planning</p> <p data-bbox="245 483 596 633">sportsotland Group and Lottery Fund do not have any formal financial plans or projections extending beyond 2018/19.</p> <p data-bbox="245 656 304 680">Risk</p> <p data-bbox="245 698 571 884">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 data-bbox="639 405 986 524">Medium to long term financial plans should be developing using sensitivity analysis and scenario planning.</p>	<p data-bbox="1062 405 1423 707">Actioned – sportsotland regularly reviews its medium to long term financial position, based on the information available from Scottish Government and National Lottery and prepares scenario analysis based on projections from the Gambling Commission..</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 to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries</p> <p>Reviewed accounting estimates</p> <p>Focussed testing of accruals and prepayments</p> <p>Identified and evaluated significant transactions outside the normal course of business</p>	<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 receive 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>	<p>Component assurances covering Trust income</p> <p>Carried out analytical procedures on income streams, other than funding from Scottish Government to identify areas of risk and direct our testing.</p> <p>Detailed testing of revenue transactions focussing on the areas of greatest risk.</p> <p>Substantive cut-off testing of income to ensure that it has been recognised in the correct financial year.</p>	<p>Results – We did not identify any issues from our testing of income streams.</p> <p>Conclusion – No fraud issues were identified</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice and Practice Note 10 extend the assumptions within ISA240 to the risk of fraud over 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>	<p>Component assurances covering Trust expenditure</p> <p>Carried out analytical procedures on expenditure streams to identify areas of risk and to direct our testing.</p> <p>Detailed testing of grant expenditure to ensure all conditions have been met prior to payments being made.</p> <p>Substantive cut-off testing of expenditure to ensure that it has been recognised in the correct financial year.</p>	<p>Results – We did not identify any significant issues from our testing of expenditure.</p> <p>Conclusion – No fraud issues were identified.</p>
<p>4 Estimation and judgements – pensions</p> <p>There is a significant degree of estimation and judgement used in the measurement and valuation of the material account area relating to the Local Government Pension Scheme, which sportscotland employees are members of.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Assessed the appropriateness of the actuarial assumptions.</p> <p>Established management arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end.</p>	<p>Results – Actuarial assumptions were considered to be appropriate, and management had obtained a IAS19 valuation report after the year end, so there was no movement in fund values.</p> <p>Conclusion – no issues identified in relation to the estimations and judgements used in the measurement and valuation of pension liability.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>5 Financial sustainability</p> <p>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.</p> <p>Although a break even position is forecast for 2018/19 there is a risk that financial balance may not be achievable in the medium to long term, partially due to a lack of detailed financial planning.</p>	<p>We requested the medium to long-term financial plans for sportscotland in order to review and assess their adequacy and robustness.</p>	<p>Results – Projected income for the Lottery Fund continues to be uncertain, but sportscotland provided their 4-year financial plans, which align with the length of commitments made to SGBs and Local Authorities.</p> <p>Conclusion – sportscotland have financial plans in place which are prepared using sensitivity analysis and scenario planning, and which are regularly reviewed by senior management. Because of the uncertainty surrounding funding for the Lottery Fund, auditors will review updated financial plans in 19/20, however it is noted that Scottish Government have agreed to provide £3.4 million extra funding to sportscotland in 19/20 in recognition of the Lottery Fund's position.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>6 Governance and transparency</p> <p>sportscotland has sound governance arrangements in place, however during our planning work we have identified slippage in the review of governance documentation and the arrangements for risk management. There is a risk that staffing pressures impact on the robustness of governance arrangements.</p>	<p>Continued to liaise with senior management about the status of Corporate Risk Register review, codification of financial regulations and update of Fraud Toolkit.</p>	<p>Result – The Corporate Risk Register has been reviewed since the Annual Audit Plan was issued, however the formalisation of financial regulations and update of the Fraud Toolkit is still underway</p> <p>Conclusion – Auditors will review the progress of the financial regulations and Fraud Toolkit in the course of the 19/20 audit.</p>

Appendix 3

Summary of national performance reports 2018/19

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

Relevant reports

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

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

sportscotland Group and Lottery Fund

2018/19 Annual Audit Report

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