

# sportscotland Group and Lottery Fund

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

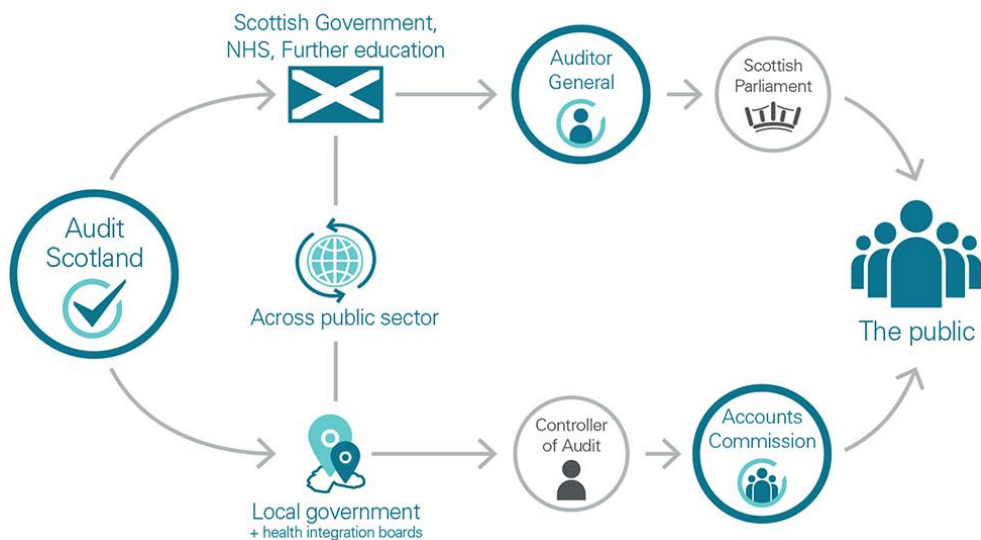
Prepared for sportscotland Group and Lottery Fund

February 2020

## 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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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


## Adding value

3. We aim to add value to sportscotland Group and Lottery Fund through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help sportscotland Group and Lottery Fund promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks


4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risk for sportscotland Group and Lottery Fund. We have categorised these risks into financial statements risks and wider dimension risks as detailed in [Exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p><i>Owing to the nature of this risk, assurances from management are not applicable in this instance.</i></p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Identification and evaluation of significant transactions that are outside the normal course of business.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>2 Risk of material misstatement caused by fraud in income recognition.</b></p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. 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 there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> <li>Income is principally received from the Scottish Government monthly drawdown of Grant in Aid and monthly drawdowns from the National Lottery Distribution Fund to meet budgeted expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>Component assurances covering Trust income.</li> <li>Carry out analytical procedures on income streams, other than funding from Scottish Government, to identify areas of risk and to direct our testing.</li> <li>Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> <li>Substantive cut-off testing of income to ensure that it has been recognised in the correct financial year.</li> </ul>
<p><b>3 Risk of material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. sportscotland Group and Lottery Fund incur significant expenditure on the award of grants and therefore there is an inherent risk of fraud over expenditure</p>	<ul style="list-style-type: none"> <li>Expenditure is mainly administered through partnership agreements with Sport Governing Bodies, Local Authorities and sports organisations which are governed by investment agreements.</li> </ul>	<ul style="list-style-type: none"> <li>Component assurances covering Trust expenditure.</li> <li>Carry out analytical procedures on expenditure streams to identify areas of risk and to direct our testing.</li> <li>Detailed testing of grant expenditure to ensure all conditions have been met prior to payments being made.</li> <li>Substantive cut-off testing of expenditure to ensure that it has been recognised in the correct financial year.</li> </ul>
<p><b>4 Estimation and judgements – pensions, valuations, grants</b></p> <p>The financial statements for sportscotland Group and the Lottery Fund include a significant degree of estimation and judgement in material account areas, for example the Local Government Pension Scheme which employees are members of, and the separation of hard and soft-commitment grants. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>Following issues with the actuarial valuation in 2017/18 we took a later valuation from the actuaries for the 2018/19 year end and will do so again in 2019/20.</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of the appropriateness of actuarial, and valuer, assumptions.</li> <li>Establish management arrangements for assessing the reliability of expert reports.</li> <li>Establish management arrangements for estimating when grant conditions are reasonably likely to be met.</li> <li>Compare estimations with outcomes in previous years.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
<b>Wider dimension risks</b>			
<b>5</b>	<b>Financial sustainability</b>  sportscotland Group and Lottery Fund continue to face uncertainty over funding, partially due to the unpredictable nature of performance of the Lottery Fund.  Although a break-even position is forecast for 2019/20, there is a risk that financial balance may not be achievable in the medium to long term.	<ul style="list-style-type: none"> <li>• This risk is recognised in the corporate risk register</li> <li>• sportscotland carries out detailed financial planning throughout the year, based on the assumptions available from Scottish Government and DCMS</li> <li>• sportscotland prepares a quarterly review of National Lottery income and scenario planning and this is used to update financial planning as required. Potential funding for the next 4 years was presented to the December 2019 Board by the CEO.</li> </ul>	<ul style="list-style-type: none"> <li>• Review and assess the adequacy and robustness of medium to long-term financial plans.</li> </ul>
<b>6</b>	<b>Governance and transparency</b>  sportscotland has sound governance arrangements in place, however during our planning work we have identified slippage in the review of governance documentation, including workforce planning.  sportscotland does not currently have a Workforce Plan. There is a risk that without effective and up-to-date workforce planning, the organisation does not efficiently manage its staffing needs, or that it will be under-prepared to respond to changing needs or demands or conduct any restructuring should it be required.	<ul style="list-style-type: none"> <li>• sportscotland's Director of Corporate Services takes a suite of key governance documents each year to the April Board</li> <li>• The Corporate Risk Register is being reviewed by the February Audit and Risk Committee</li> <li>• Financial regulations and controls are in place and have recently been reviewed by the Internal Auditors, looking specifically at the Trust Company sites and its links into Head Office. Substantial assurance was issued. Work is ongoing to fully document the existing financial control processes</li> <li>• The Fraud Toolkit will be updated as part of the current review of all legal policies.</li> <li>• sportscotland has an Establishment Report in place which provides analysis of the current workforce/ organisation structure including vacancies; and staffing budgets and staffing profile (age, gender, grade etc).</li> <li>• Our draft People Strategy and associated action plan sign posts the requirement to strengthen consistency and transparency around recruitment to build capability within the organisation.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to liaise with senior management about the status of the codification of financial regulations and scheme of delegations.</li> <li>• Review progress of the workforce planning process and establish what arrangements would currently be considered in the event of any organisational restructure.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
		Management will consider developing a resourcing strategy / workforce plan as part of this action.	

Source: Audit Scotland

## Reporting arrangements

- 5.** Audit reporting is the visible output for the annual audit. All audit outputs, as detailed in [Exhibit 2](#), will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 6.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.
- 7.** We will provide an independent auditor's report to sportscotland Group and Lottery Fund, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Management Report	1 May 2020	24 June 2020
Independent Auditor's Report	28 August 2020*	12 August 2020
Annual Audit Report	28 August 2020*	12 August 2020

\* These dates represent when the independent auditor's report will be signed, and the final annual audit report issued. We will provide copies to those charged with governance in advance of the August committee to enable them to be considered

## Audit fee

- 8.** The audit fee for the 2019/20 audit of sportscotland Group and Lottery Fund is £48,176 (2018/19 £47,140). In determining the audit fee, we have taken account of the risk exposure of sportscotland Group and Lottery Fund, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 8 June 2020.
- 9.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### Audit & Risk Committee and Accountable Officer

- 10.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing

effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**11.** The audit of the annual report and accounts does not relieve management or the Audit and Risk Committee as those charged with governance, of their responsibilities.

#### **Appointed auditor**

**12.** Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**13.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.



# Audit scope and timing

## Annual accounts

**14.** The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of sportscotland Group and Lottery Fund and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how sportscotland Group and Lottery Fund will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**15.** We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of sportscotland Group / sportscotland Lottery Fund as at 31 March 2020 and of their income and expenditure for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.
- have been prepared in accordance with the requirements of the Royal Charter / National Lottery etc. Act 1993 and directions made thereunder by the Scottish Ministers.

**16.** The group financial statements include the balances and transactions of sportscotland combined with those of the related Trust Company. Scott-Moncrieff will undertake the audit of the Trust Company for 2019/20. In order to arrive at our opinion on the financial statements of the Group, we will obtain such assurances as are necessary from Scott-Moncrieff on their audit of the Trust Company.

## Information accompanying the financial statements

**17.** We also review and report on other information published within the annual report and accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**18.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Materiality

**19.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

**20.** We calculate materiality at different levels as described below. The calculated materiality values for sportscotland Group and Lottery Fund are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values

Materiality	sportscotland Group	sportscotland Lottery Fund
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2020 based on the latest audited accounts.	£432,000	£276,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£259,000	£166,000
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3% of planning materiality (rounded).	£10,000	£8,000

Source: Audit Scotland

## Timetable

**21.** To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

## Exhibit 4

### Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	8 June 2020
Latest date for receipt of assurances from Group's Component Auditors	8 June 2020
Latest date for final clearance meeting with Head of Finance	23 June 2020
Agreement of audited unsigned annual report and accounts	8 July 2020
Issue of annual audit report, letter of representation and proposed independent auditor's report for Audit and Risk committee consideration	12 August 2020
Board meeting to sign annual report and accounts	26 August 2020
Independent auditor's report signed	28 August 2020

### Internal audit

**22.** Internal audit is provided by BDO. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**23.** We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**24.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We will consider aspects of the work of internal audit as their findings are made available however, due to the timing and scope of the work, no formal reliance is planned.

### Audit dimensions

**25.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**26.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the medium term (two to five years) and longer term (longer than five years). We will consider:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

### Financial management

**27.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will consider:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- whether sportscotland can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- how sportscotland have assured themselves that their financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

### Governance and transparency

**28.** 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. We will consider:

- whether sportscotland, including consideration of the Lottery Fund, can demonstrate that the governance arrangements in place are appropriate and operating effectively

- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

### Value for money

**29.** Value for money refers to using resources effectively and continually improving services. We will consider whether sportscotland, including the Lottery Fund, can:

- provide evidence that it is demonstrating value for money in the use of its resources
- demonstrate that there is a clear link between money spent, output and outcomes delivered
- show that outcomes are improving.

### Best Value

**30.** The Accountable Officer of sportscotland Group and Lottery Fund has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements.

### Independence and objectivity

**31.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**32.** The engagement lead (i.e. appointed auditor) for sportscotland Group and Lottery Fund is Carole Grant, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of sportscotland Group and Lottery Fund.

### Quality control

**33.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**34.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**35.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

# sportscotland Group and Lottery Fund

## Annual Audit Plan 2019/20

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

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