

sportscotland Group and Lottery Fund

2019/20 Annual Audit Report



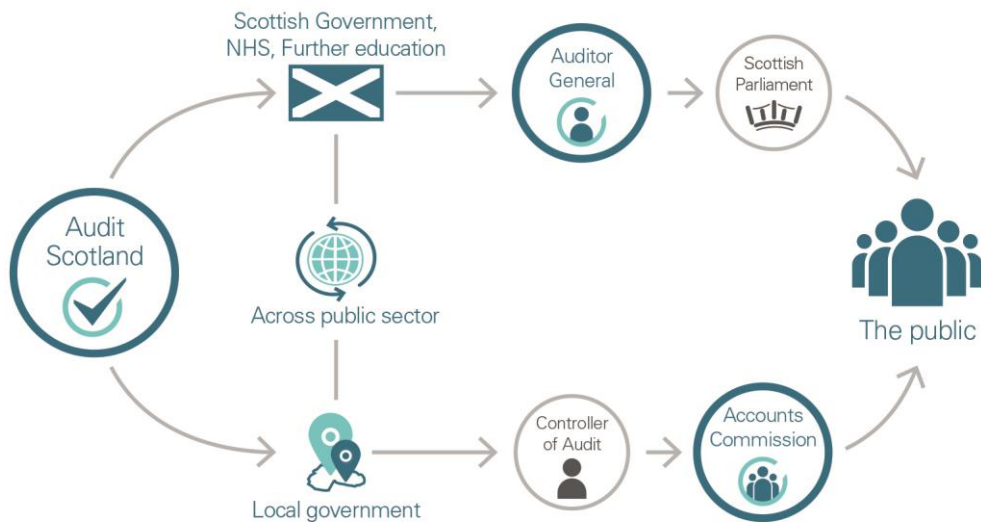
Prepared for the sportscotland Board and the Auditor General for Scotland

August 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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Key messages

2019/20 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 2020 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting frameworks.
- 2 An 'emphasis of matter' paragraph is included in the independent auditor's report to draw attention to the material uncertainty caused by the COVID-19 pandemic.
- 3 Despite the strong working relationships between sportscotland staff and the audit team the COVID-19 restrictions impacted on aspects of the audit and delayed reporting to the Audit and Risk Committee.

Financial management

- 4 sportscotland has appropriate and effective financial management arrangements. The 2020/21 budget was revised and reapproved by the Board in June 2020 to reflect the impact of COVID-19.
- 5 Systems of internal control were assessed as operating appropriately and effectively, however we have not tested the implications of moving to a home working environment from the end of March 2020. We will consider this as part of next year's audit.

Financial sustainability

- 6 sportscotland Group and Lottery Fund make 4 year 'in principal' commitments, including scenario planning, however the sporting system has been significantly affected by COVID-19 and the future remains uncertain.

Governance and transparency

- 7 Appropriate and effective governance arrangements are in place and sportscotland was quickly able to move to remote working for staff and virtual Board and committee meetings to support scrutiny and decision making.
- 8 sportscotland should review its arrangements to ensure it operates in an open and transparent way, particularly given the current restrictions from COVID-19.

Value for money

- 9 sportscotland has an appropriate and effective performance management framework in place which supports the achievement of value for money. Performance targets and plans are being reprioritised to best support the recovery of the sporting system.

Introduction

1. This report summarises the findings from our 2019/20 audit of sportscotland Group and the Lottery Fund.
2. The scope of our audit was set out in our Annual Audit Plan which was circulated to members of the Audit and Risk Committee in February 2020. This report comprises the findings from:
 - an audit of the sportscotland Group and Lottery Fund 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*

3. Scotland's public services are under exceptional pressure due to the COVID-19 pandemic. Our approach to audit during these circumstances will be pragmatic, flexible and consistent. We have issued a paper, [COVID-19 What it means for public audit in Scotland](#), setting out the principles of Audit Scotland's approach to our financial and performance audit programmes. It also outlines our plans for assessing the impact of COVID-19 on public bodies and reviewing the Scottish public sector's response to the pandemic.

Adding value through the audit

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

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- 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.

Responsibilities and reporting

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

Auditor Independence

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 2019/20 audit fee of £48,176 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 both sportscotland Group and the Lottery Fund and 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 2019/20 annual report and accounts



Main judgements

The financial statements of sportscotland Group and Lottery Fund give a true and fair view of the state of affairs of these body as at 31 March 2020 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.

An 'emphasis of matter' paragraph is included in the independent auditor's report to draw attention to the material uncertainty caused by the COVID-19 pandemic.

Despite the strong working relationships between sportscotland staff and the audit team the COVID-19 restrictions impacted on aspects of the audit and delayed the reporting to the Audit and Risk Committee.

Our audit opinions on the annual report and accounts are unmodified

12. The annual report and accounts for the year ended 31 March 2020 were approved by the Board on 26 August 2020. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

13. We have included an 'Emphasis of Matter' paragraph in our independent auditor's report which refers to the material uncertainty caused by the COVID-19 pandemic. Emphasis of Matter paragraphs are added to auditors' reports where the auditor considers it necessary to draw users' attention to matters which are fundamental to the understanding of the financial statements. Note 1.3 in the financial statements describes the uncertainty caused and further information is contained in [Exhibit 3](#) below. The audit opinion is not modified in respect of this matter.

COVID-19 impacted on the audit of the annual report and accounts

14. In March 2020, in response to the global COVID-19 pandemic, Scotland went into lockdown. Since then Audit Scotland and sportscotland staff have been working from home and we have therefore had to adapt our 'normal' audit approach and work together to develop new ways to audit remotely.

The annual report and accounts are the principal means of accounting for the stewardship of resources and performance

15. During early discussions we agreed a one-week delay to the delivery of the unaudited annual report and accounts which were therefore provided on 22 June 2020. Throughout there has been on-going discussions with sportscotland staff and their support enabled the audit to proceed well, however the limitations of remote working did impact on our audit timetable. A detailed verbal update was provided to the Audit and Risk Committee on 12 August 2020 with the Annual Audit Report then discussed by correspondence with committee members. This enabled the annual report and accounts to be signed by the Board as originally planned on 26 August 2020.

16. The working papers provided to support the financial statements were of a good standard and the audit team received support from sportscotland staff throughout the audit process which enabled us to obtain the required evidence despite working remotely.

17. In accordance with the WGA guidance we will complete the required assurance statement and submit it to the National Audit Office (NAO). We await confirmation of the revised deadline but understand that this will be 30 November 2020.

Exhibit 2

Materiality values

Materiality level	Group Planning	Group Revised	Lottery Fund Planning	Lottery Fund Revised
Overall materiality	£432,000	£403,000	£276,000	£200,000
Performance materiality	£259,000	£201,000	£166,000	£120,000
Reporting threshold	£10,000	£10,000	£8,000	£6,000

Source: sportscotland Group and Lottery Fund Annual Audit Plan 2019/20

Audit work addressed the main risks of material misstatement identified during the audit planning process


18. Our Annual Audit Plan detailed the risks of material misstatement identified for the annual report and accounts for sportscotland Group and Lottery Fund. We also highlighted any wider dimension audit risks identified. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. These risks, the work we undertook to address them and our conclusions from this work are detailed in [Appendix 2](#).

19. International Standards 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. The significant findings from the audit of the annual report and accounts are summarised in [Exhibit 3](#).

20. One of the risks of material misstatement identified during the audit planning process related to the extent of estimation and judgement within the financial statements. As noted at [paragraph 13](#) we have included an 'Emphasis of Matter' paragraph in our independent auditor's report due to the material uncertainty caused by the COVID-19 pandemic.

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Property valuations</p> <p>As is normal accounting practice the financial statements include valuations by experts in areas such as property assets and pensions.</p> <p>The Statement of Financial Position includes £3 million of assets that were valued by the District Valuer Services as at 31 March 2020. The valuation report noted that uncertain market and financial conditions mean that this valuation carries a high degree of subjectivity leading to a greater than normal range of uncertainty owing to the impact of the COVID-19 pandemic.</p>	<p>Due to the material nature of the property assets, and the statement by the valuer, we included an 'emphasis of matter' paragraph in our independent auditor's report to draw attention to the material uncertainty disclosed in Note 1.3 of the financial statements.</p>
<p>2. Going concern of Scottish Sports Council Trust Company (SSCTC)</p> <p>The auditors of the SSCTC have included an 'emphasis of matter' paragraph in their independent auditors' report to draw attention to the additional going concern uncertainty due to the financial impact of closing the national performance centres as part of the public health response to the COVID-19 pandemic.</p>	<p>Sportscotland has a funding agreement in place with the Scottish Government and a budget has been approved for SSCTC for the year ended 31 March 2021.</p> <p>As the consolidation of SSCTC is material to the sportscotland group we included an 'emphasis of matter' paragraph in our independent auditor's report to draw attention to the material uncertainty disclosed in Note 1.3 of the financial statements.</p>
<p>3. Pension valuations</p> <p>The IAS19 report received from the actuary, Hymans Robertson, provided the year end pension information for sportscotland. No additional uncertainty was identified, however the unaudited accounts of Strathclyde Pension Fund notes that the valuation of the Fund's UK property portfolio includes a Material Valuation Uncertainty Clause due to the unprecedented set of circumstances caused by COVID-19.</p>	<p>We considered the impact of the uncertainty identified by the pension fund on the share allocated to admitted bodies and concluded that this would not have a significant impact.</p> <p>This has been disclosed in Note 15 of sportscotland Group accounts.</p>
<p>4. Remuneration and Staff Report</p> <p>There were a number of changes required to the Remuneration and Staff Report included in the unaudited financial statements. Audit testing identified some changes to remuneration and pension entitlement bandings. Changes were also required to the exit packages bandings and total and to the fair pay disclosures.</p>	<p>We recognise that current restrictions may have impacted on review arrangements. All required amendments have been included in the audited accounts.</p> <p> Recommendation 1</p>
<p>5. Accounting for period poverty grant</p> <p>The Group Statement of Changes in Taxpayers Equity in the unaudited accounts showed grant in aid of £32,650k for the year, however this included £50k of period poverty grant which should have been recognised as income in the Statement of Comprehensive Net Expenditure.</p>	<p>This has been amended in the audited accounts by recognising an additional £50k of income and reducing the funding figure.</p>

Issue	Resolution
<p>6. VAT debtor/creditor</p> <p>Audit testing identified a negative VAT debtor of £32k which was understating the trade and other receivables and trade and other payables balances within the Statement of Financial Position.</p>	<p>This has been amended in the audited accounts resulting in a £32k increase in both the trade and other receivables line and the trade and other payables line.</p>
<p>Source: Audit Scotland</p>	

Identified misstatements of £82k were adjusted in the accounts, these were less than our performance materiality and we did not need to further revise our audit approach

21. There were no material adjustments to the unaudited annual report and accounts arising from our audit. Total misstatements identified were £82k, of which £32k was a movement between lines in the Statement of Financial Position and £50k was a decrease in total net expenditure. We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety and do not indicate systematic error.

22. 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. All misstatements have been amended in the audited financial statements.

Good progress was made on prior year recommendations

23. Sportscotland Group and Lottery Fund has made good progress in implementing our prior year audit recommendations as outlined in [Appendix 1](#).

Part 2

Financial management



Main judgements

sportscotland has appropriate and effective financial management arrangements. The 2020/21 budget was revised and reapproved by the Board in June 2020 to reflect the impact of COVID-19.

Systems of internal control were assessed as operating appropriately and effectively, however we have not tested the implications of moving to a home working environment from the end of March. We will consider this as part of next year's audit.

sportscotland Group operated within budget in 2019/20 and has a year end net asset position of £21.3 million

24. 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).

25. The body achieved an outturn of £32.320 million remaining within its overall budget for 2019/20 with an underspend of £1 million. Agreement was received from the Scottish Government to carry forward the capital funding of £1 million which was provided to assist with infrastructure cycling projects across Scotland. The financial performance is shown in [Exhibit 4](#).

Exhibit 4 Performance against funding target in 2019/20

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	31.550	31.600	31.600	-
Capital	0.000	1.000	0.000	(1.000)
Non-cash	0.720	0.720	0.720	-
Total	32.270	33.320	32.320	(1.000)

Source: sportscotland Group Annual Report and Accounts 2019/20

26. This grant-in-aid income was supplemented by other income of £5.9 million including £3.5 million from SSCTC and £2.4 million from other operating income such as high performance and rental income.

27. The financial statements show that sportscotland Group has net assets of £21.3 million, an increase of £7.4 million, largely attributable to a decrease in the pension liability of £5.9 million.

sportscotland Lottery Fund reported a large increase in fund of £9 million for 2019/20 due to changes in the grant awards process and has a year end net asset position of £42.7 million

28. sportscotland Lottery Fund has reported an expenditure outturn of £20 million (2018/19: £27.6 million) and income of £29 million (2018/19: £26.4 million), therefore showing an increase in fund of £9 million against a prior year decrease in fund of £1.3 million. The reason for this movement is due to the timing of awards which previously occurred in the last quarter, but due to a change in the process fell outwith the 2019/20 financial year, occurring in the first quarter of 2020/21. This is a one-year anomaly due to the timing changes and does not reflect any issues with the overall management of sportscotland Lottery Fund.

29. The financial statements show that sportscotland Lottery fund has net assets of £42.7 million, an increase of £9.1 million due to the increase in fund noted above, however the balance held by NLDF has decreased by £4.3 million reflecting the planned draw down and use of the balance.

Budget processes were appropriate but future plans will be impacted by the COVID-19 pandemic

30. We reviewed sportscotland's budget setting and monitoring arrangements as part of the audit process. From our review of budget monitoring reports and committee papers we confirmed that, during 2019/20, senior management and members received regular, timely and up to date financial information to enable them to make decisions.

31. In March 2020, as a result of the COVID-19 pandemic, the sporting system in Scotland shut down. In response sportscotland reviewed their grant commitments and reprioritised their spending plans. A revised 2020/21 budget was approved by the Board in June 2020.

32. sportscotland has appropriate budget setting and monitoring arrangements in place which supports sound decision making and effective scrutiny.

Financial systems of internal control are operating effectively, however we have not assessed the impact of homeworking since end March 2020

33. 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 that the control environment that supports the preparation of the financial statements is sound.

34. Our findings from this work were included in the management report presented to the Audit and Risk Committee on 24 June 2020. We concluded that the controls were generally operating effectively, however we suggested a small number of enhancements to support further strengthening of the control environment. At the end of March 2020 sportscotland, along with most of the public sector, moved to a homeworking environment. Discussions with finance staff have confirmed that some control arrangements have been adapted to reflect the current restrictions and these will be subject to audit consideration as part of the 20/21 audit process.

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

Scott Moncrieff has replaced BDO LLP as sportscotland's internal auditors from 1 April 2020

35. The internal audit function for sportscotland was carried out by BDO LLP. The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive' to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2019/20 concluded that overall adequate assurance could be taken from the arrangements in place. Weaknesses were highlighted in the reviews of succession planning and efficiency savings, however, having considered the issues raised, we agreed with management that these did not require separate disclosure within the governance statement.

36. As part of our audit planning 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 to which we could use the work of internal audit. We confirmed that the internal audit service complied with the main requirements of the PSIAS, however due to the timing of reports we did not place any formal reliance on their work to support our opinion on the financial statements. We do however consider all internal audit reports to support our understanding and inform our conclusions on the audit dimensions.

37. Following a tendering exercise during 2019 Scott Moncrieff was appointed as the internal auditors from 1 April 2020 for a period of three years.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

38. Public sector bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities. Furthermore, the Board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

39. 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 has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities. We are not aware of any specific issues that we need to bring to your attention.

Arrangements for preventing fraud and corruption in the procurement function are appropriate

40. Our consideration of financial management includes evaluating the arrangements in place for preventing and detecting fraud and corruption. Instances of fraud and corruption can be particularly prevalent in the procurement function. We carried out an assessment of the arrangements in place at sportscotland to prevent fraud and corruption in the procurement function, including considering the work of internal audit and the Scottish Government Healthcheck, and concluded that the processes in place for procurement and contract management are robust and provide substantial assurance.

Part 3

Financial sustainability



Main judgements

sportscotland Group and Lottery Fund make 4 year 'in principal' commitments, including scenario planning, however the sporting system has been significantly affected by COVID-19 and the future remains uncertain.

sportscotland has medium-term financial planning, but recognises the additional uncertainty caused by the COVID-19 pandemic

41. sportscotland makes 4 year 'in principle' commitments to Sports Governing Bodies and Local Authorities which are subject to funding being received. The financial planning systems have therefore been aligned to the duration of these commitments, with financial plans prepared using sensitivity analysis and scenario planning.

42. sportscotland had prepared a budget for 2020/21, however in April 2020, in response to the COVID-19 pandemic, all Directors were asked to review their budget to focus on key priority areas including investment to partners, National Centres, staff costs and core overhead / compliance costs. A short term action plan has been prepared to support the sporting system to recover from the current restrictions and a revised 2020/21 budget was reapproved by the Board in June 2020.

43. sportscotland has responded well to the current challenges being faced, however the sporting system has been massively affected by the COVID-19 pandemic and current financial planning has focused on the immediate challenges with more work required on the longer term implications.

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



Recommendation 2

The sporting system has been massively affected by the COVID-19 pandemic and sportscotland should build on the short term financial impact to revise the medium term financial planning.

Part 4

Governance and transparency



Main judgements

Appropriate and effective governance arrangements are in place and sportscotland was quickly able to move to remote working for staff and virtual Board and committee meetings to support scrutiny and decision making.

sportscotland should review its arrangements to ensure it operates in an open and transparent way, particularly given the current restrictions from COVID-19.

Overall governance arrangements are appropriate, but have been impacted by the COVID-19 pandemic

44. As part of our audit process we are continually assessing the government arrangements within sportscotland including:

- Board and committee structure and conduct,
- public access to information via websites, and
- reporting of performance and whether this is fair, balanced and understandable.

45. Our previous year's conclusion is still relevant, that there are 'adequate arrangements in place which support good governance and accountability, and which provide an appropriate framework for organisational decision making', however we recognise that things have had to change since March 2020 due to the COVID-19 pandemic.

46. The impact of COVID-19 from March 2020 has been set out in the governance statement in the annual report and accounts. sportscotland was able to quickly move staff to a home working environment and had technology solutions in place to ensure that Board and committee meetings could go ahead virtually with minimal impact on decision making and scrutiny.

Openness and transparency could be improved

47. There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting 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.

48. Board and other committee meetings are held in private, however Board minutes should be published on the website. From a review of the website this has not been maintained with the most recent available minutes dated 30 October 2019.

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



Recommendation 3

Given the current restrictions in place, with limited activity at the national performance centres and much of the sporting system still closed, sportscotland should review how the website and other virtual engagement can support their desire to conduct business in an open and transparent way

The performance report was of a good standard

49. In addition to the opinion on the performance report covered in Part 1, we also consider the qualitative aspects of sportscotland Group and Lottery Fund performance report. The performance report should provide information on the main objectives and principal risks faced. It should also provide a fair, balanced and understandable analysis of performance as well as helping stakeholders understand the financial statements.

50. Significant time has been invested in developing the preparation process for the performance report. As a result the performance reporting in the annual accounts is more focused than in previous years and has a good mix of narrative and exhibits to help stakeholders understand the performance story.

Part 5

Value for money



Main judgements

sportscotland has an appropriate and effective performance management framework in place which supports the achievement of Best Value. Performance targets and plans are being reprioritised to best support the recovery of the sporting system.

sportscotland has developed a performance management framework which supports the achievement of Best Value

51. *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. The guidance sets out the key principles of best value and the requirement to have a systematic approach to self-evaluation and continuous improvement.

52. 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 [sportscotland Business Plan 2019-21](#).

53. The Board is kept well informed of performance across all areas of activity and responsibility for the detailed review and scrutiny of performance rests with the Audit and Risk Committee. A core part of our audit process is to attend Audit and Risk Committee meetings and review the minutes and papers from the Board to ensure performance is being monitored and scrutinised.

54. sportscotland has an effective performance management framework in place which supports the achievement of Best Value and continuous improvement in the way services are delivered.

National performance audit reports

55. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 several reports were published 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 2019/20



No.	Issue / Risk	Recommendation	Agreed management action / Timing
1	<p>Remuneration and staff report</p> <p>The audit process identified a number of required changes to the remuneration and staff report to ensure it accurately reflected the underlying supporting documentation.</p> <p>There is a risk that remuneration disclosures are incorrect.</p>	<p>We recognise that the current restrictions and working from home arrangements may have impacted on the normal internal review arrangements. These are an important aspect of the preparation of the annual report and accounts and should always be sufficiently robust to identify potential errors.</p> <p><i>Exhibit 3, point 3</i></p>	<p>We note the comments and will look to ensure that the draft remuneration report is fully reviewed each year to minimise the risk of errors.</p> <p>Neville Cobb, August 2020</p>
2	<p>Medium term financial planning</p> <p>The current response to the impact of the COVID-19 pandemic has focused on short term actions and now sportscotland has to look further ahead to determine the best way to support the recovery of the wider sporting system.</p> <p>There is a risk to the financial sustainability of the sporting system in Scotland.</p>	<p>The sporting system has been massively affected by the COVID-19 pandemic and sportscotland should build on the short term financial impact to revise the medium term financial planning.</p> <p><i>paragraph 43</i></p>	<p>sportscotland 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> <p>It has undertaken two budget reviews during the first 5 months of 2020-21 and a Short Term Action Plan which will be reviewed at the August 2020 Board.</p> <p>sportscotland will continue to work with national and local partners to identify the key financial challenges for sporting system in Scotland and will work with its funders and partners to develop a medium term plan to support the system.</p>

Neville Cobb, August 2020



No.	Issue / Risk	Recommendation	Agreed management action / Timing
3	<p>Openness and transparency</p> <p>Board and other committee meetings are held in private, however Board minutes should be published on the website. From a review of the website this has not been maintained with the most recent available minutes dated 30 October 2019.</p> <p>There is a risk that stakeholders are unable to access relevant information leading to concerns about the transparency of decisions.</p>	<p>Given the current restrictions in place, with limited activity at the national performance centres and much of the sporting system still closed, sportscotland should review how the website and other virtual engagement can support their desire to conduct business in an open and transparent way</p> <p>paragraph 48</p>	<p>We will ensure that the Board minutes are uploaded on a timely basis once they are approved by the Board.</p> <p>The web-site has a dedicated Coronavirus (COVID-19) information and resources section to interact with the sporting sector, which includes sections on:</p> <ul style="list-style-type: none"> • Getting your facilities fit for sport • Getting coaches ready for sport • Latest sport and physical activity guidance • Support for clubs and community sport organisations • Coronavirus (COVID-19) and sport FAQ • Communications during the Coronavirus (COVID-19) pandemic <p>We will keep this under constant review and ensure it provides current information and guidance to the sporting sector as the current operating environment develops.</p>
Neville Cobb, August 2020			

Follow up of prior year recommendations

b/f	<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>Complete</p> <p>The staff cost allocation was correctly accounted for in the financial statements.</p>
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No.	Issue / Risk	Recommendation	Agreed management action / Timing
b/f	<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.</p> <p>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>Complete</p> <p>Supporting documentation for exit packages was provided early in the audit process and no issues were identified.</p>
b/f	<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 has 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>Complete</p> <p>We agreed a one-week delay to the delivery of the financial statements due to the impact of COVID-19. This enabled staff to provide the audit team with a good quality unaudited annual report and accounts. Despite current restrictions good working papers and support were provided to the audit team throughout.</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 to our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</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>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Reviewed of accounting estimates. • Focused testing of accruals and prepayments. • Identification and evaluation of significant transactions that are outside the normal course of business. 	<p>Results – Our audit testing 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 material misstatement caused by fraud in income recognition</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"> • Component assurances covering Trust income. • Carry out analytical procedures on income streams, other than funding from Scottish Government, to identify areas of risk and to direct our testing. • Detailed testing of revenue transactions focusing on the areas of greatest risk. • Substantive cut-off testing of income to ensure that it has been recognised in the correct financial year. 	<p>Results – We did not identify any significant 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 material misstatement caused by fraud in expenditure</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"> • Component assurances covering Trust expenditure. • Carry out analytical procedures on expenditure streams to identify areas of risk and to direct our testing. • Detailed testing of grant expenditure to ensure all conditions have been met prior to payments being made. • Substantive cut-off testing of expenditure to ensure that it has been recognised in the correct financial year. 	<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, valuations, grants</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"> • Assessment of the appropriateness of actuarial and valuer assumptions. • Establish management arrangements for assessing the reliability of expert reports. • Establish management arrangements for estimating when grant conditions are reasonably likely to be met. • Compare estimations with outcomes in previous years. 	<p>Results – Estimations and judgements within the accounts were based on the most recent information. The additional uncertainty caused by the COVID-19 pandemic has been adequately disclosed within the accounts.</p> <p>Conclusions – An ‘emphasis of matter’ paragraph has been included in the independent auditor’s report to draw attention to the additional uncertainty disclosures.</p>
<p>Wider dimension risks</p>		
<p>5 Financial sustainability</p> <p>sportscotland Group and Lottery Fund continue to face uncertainty over funding, partially due to the unpredictable nature of performance of the Lottery Fund.</p> <p>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.</p>	<ul style="list-style-type: none"> • Review and assess the adequacy and robustness of medium to long-term financial plans. 	<p>Results – 2019/20 proved to be a good year for Lottery Fund income and current 20/21 projections are similar however the full impact of the COVID-19 pandemic is unknown.</p> <p>Conclusions – sportscotland has financial plans in place which are prepared using sensitivity analysis and these have recently been reviewed. Audit work will continue to assess this as part of the 20/21 audit process.</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, including workforce planning.</p> <p>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.</p>	<ul style="list-style-type: none"> • Continue to liaise with senior management about the status of the codification of financial regulations and scheme of delegations. • Review progress of the workforce planning process and establish what arrangements would currently be considered in the event of any organisational restructure. 	<p>Results – Progress was being made on governance documentation however the COVID-19 pandemic has significantly changed working arrangements and sportscotland are taking the opportunity to review their governance and key strategies.</p> <p>Conclusions – We recognise the current restrictions in place and will pick up changes to governance and strategies as part of the 20/21 audit process.</p>

Appendix 3

Summary of national performance reports 2019/20



		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	 Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	 Early learning and childcare: follow-up

sportscotland Group and Lottery Fund

2019/20 Annual Audit Report

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