

# Creative Scotland / Creative Scotland National Lottery Distribution Fund

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Creative Scotland and the Auditor General for Scotland  
November 2023

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# Key messages

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## 2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts for both Creative Scotland, its group and the Creative Scotland National Lottery Distribution Fund are unmodified, i.e. the financial statements and related reports are free from material misstatement. Expenditure and income were incurred in accordance with applicable enactments and guidance.
- 2 Key risks arising from the audit of both annual report and accounts was set out in our Annual Audit Plan and presented to the Audit and Risk Committee in March 2023. There are no significant matters from that work to draw to the attention of the Board.

## Financial management and sustainability

- 3 Creative Scotland has effective and appropriate arrangements to secure sound financial management.
- 4 There is effective and appropriate arrangements in place to continue to deliver services.
- 5 Creative Scotland operated within its revised fiscal resources reporting an underspend of £7k for the year.
- 6 The Creative Scotland National Lottery Distribution Fund produced a deficit of £3.1m taking its general reserve balance to £20.1m at 31st March 2023.
- 7 There is appropriate and effective financial management in place with regular budget monitoring reports provided to the Board.
- 8 Controls within the main financial systems are operating effectively while standards for the prevention and detection of fraud remain appropriate.

## Vision, leadership and governance

- 9 Creative Scotland has clear plans in place to implement its vision, strategy and priorities.
- 10 There are effective and appropriate governance arrangements in place for delivery of plans.
- 11 Creative Scotland has effective and appropriate governance arrangements in place that support scrutiny of decisions made by the Board.

## Use of resources in improve outcomes

- 12** Creative Scotland has effective and appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.
- 13** Creative Scotland complies with best value duties through its Annual Review of Performance.

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# Introduction

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**1.** This report summarises the findings from the 2022/23 annual audit of Creative Scotland and its group and the Creative Scotland National Lottery Distribution Fund. The scope of the audit was set out in the Annual Audit Plan presented to the March 2023 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from the audit of Creative Scotland, its group and the Creative Scotland National Lottery Distribution Fund annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
  - Financial Management
  - Financial Sustainability
  - Vision, Leadership, and Governance
  - Use of Resources to Improve Outcomes.

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

## Audit appointment from 2022/23

**3.** I, Esther Scoburgh, have been appointed by the Auditor General as auditor of Creative Scotland and the Creative Scotland National Lottery Distribution Fund for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice 2021](#) which was introduced for financial years commencing on or after 1 April 2022.

**4.** My team and I would like to thank Audit and Risk Committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance this year. We look forward to working together constructively over the course of the five-year appointment.

## Responsibilities and reporting

**5.** Creative Scotland has primary responsibility for ensuring the proper financial stewardship of public funds for Creative Scotland and the Creative Scotland National Lottery Distribution Fund. This includes preparing two separate annual report and accounts in accordance with the Account's Directions from the Scottish Ministers. Creative Scotland is also responsible for establishing

appropriate and effective arrangements for governance, propriety, and regularity.

**6.** The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

**7.** 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.** This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

## 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 2022/23 audit fee of £64,460 for Creative Scotland and £32,630 for the Creative Scotland National Lottery Distribution Fund as set out in our 2022/23 Annual Audit Plan remain unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**10.** We add value to Creative Scotland 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, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

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# 1: Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

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## Main judgements

The annual report and accounts for Creative Scotland and its group, and the annual report and accounts for the Creative Scotland National Lottery Distribution Fund, give a true and fair view and were properly prepared in accordance with the financial reporting framework.

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

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## Audit opinions on the annual report and accounts are unmodified

**11.** On 16 November 2023 the Audit and Risk Committee recommended the Board approve and sign the annual report and accounts for Creative Scotland and its group, and the Creative Scotland National Lottery Distribution Fund for the year ended 31 March 2023. This will be formally approved at the Board meeting on 27 November 2023. As reported in both independent auditor's reports, in my opinion as the appointed auditor:

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

## Overall materiality was assessed as £1.3 million for Creative Scotland and its group and £714,000 for the Creative Scotland National Lottery Distribution Fund

12. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

### Exhibit 1

2022/23 Materiality levels for Creative Scotland (CS) and its group, and the Creative Scotland National Lottery Distribution Fund (CSNLDF)

Materiality	CS	CS Group	CSNLDF
Planning materiality	£1.3 million	£1.3 million	£750,000
Performance materiality	£851,000	£861,000	£488,000
Reporting threshold (i.e. clearly trivial)	£65,000	£66,000	£38,000

Source: Audit Scotland

13. The overall materiality threshold was set with reference to gross expenditure for both accounts, which we judged as the figure most relevant to the users of the financial statements. In determining performance materiality, we considered the fact that both organisations primary role is to provide grants to the creative sector in Scotland. Gross expenditure is the most appropriate measure for setting materiality to reflect the role and interest of the users of the financial statements.

14. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 65% of overall materiality.

15. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

## Significant findings and key audit matters

16. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the body's accounting practices.

17. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements. The significant findings are summarised in [Exhibit 2](#).



## Exhibit 2

### Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p><b>1. Valuation of the IAS 19 Pension asset / liability</b></p> <p>The IAS 19 report by the actuary to the Strathclyde Pension Fund reported that Creative Scotland had an in year surplus which changed the overall liability position in 2021/22 to a net asset position of £3.8 million at 31 March 2023.</p> <p>To fully comply with IAS 19 and IFRIC 14, a defined benefit asset requires to be limited to the lower of:</p> <ul style="list-style-type: none"> <li>• The surplus in the defined benefit plan; and</li> <li>• The asset ceiling determined using the discount rate (in line with general IAS 19 rules on discount rates).</li> </ul> <p>The revised calculation takes the net present value of employer future service costs against the net present value of employer future contributions. The difference represents the asset ceiling.</p> <p>The asset ceiling was not applied in the Creative Scotland unaudited accounts and this was not compliant with the accounting standard. A change was requested by audit</p>	<p>Creative Scotland obtained a revised estimate from the actuary which determined an asset ceiling value of £241,000.</p> <p>Management revised Creative Scotland's unaudited accounts to limit the net pension asset accordingly. This had the effect of reducing the pension asset by £3.5 million in the Balance Sheet. The impact of this change can be seen in Note 18 of Creative Scotland's audited accounts.</p> <p>As a result of the above, we are satisfied that the valuation of the pension asset is not materially misstated. This was judged to be a key audit matter.</p>

## Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

**18.** We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Significant risks of material misstatement in CS and the CSNLDF annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Detailed testing of journal entries.</p> <p>Detailed testing of grant income and expenditure to ensure this was accounted for appropriately.</p> <p>Reviewed the apportionment of costs and accounting estimates for reasonableness.</p> <p>Testing of accruals and prepayments.</p> <p>Evaluated significant transactions that are outside the normal course of business.</p> <p>Cut off testing.</p>	<p>No unusual or inappropriate transactions were identified as part of our detailed journal testing.</p> <p>Grant testing of income and expenditure has not identified any accounting issues.</p> <p>Apportionment of costs were consistent with the recharge policy.</p> <p>Testing on accruals and prepayments did not identify any instances of management override of controls.</p> <p>As part of our substantive testing, we considered whether transactions were within the normal course of business. Our testing did not identify any issues.</p> <p>No issues were identified in our cut off testing samples.</p> <p><b>Conclusion:</b> We did not identify any incidents of management override of controls.</p>

Source: 2022/23 Annual Audit Plan

**19.** In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **Grant expenditure / commitments** - As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. The vast majority of expenditure within Creative Scotland and the Creative Scotland National Lottery Distribution Fund relates to the awarding of grants and the nature of this expenditure represents a risk of material misstatement in the financial statements.
- The focus of testing in expenditure within both Creative Scotland and the Creative Scotland National Lottery Distribution Fund focused on

grants expenditure with no errors being found through the course of testing.

**20.** We kept this area under review throughout our audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

### **There were no identified misstatements**

**21.** We did not identify any material misstatements above our reporting threshold in either Creative Scotland or the Creative Scotland National Lottery Distribution Fund.

### **The unaudited annual audit report and accounts were received in line with the agreed audit timetable**

**22.** Both unaudited annual report and accounts were received in line with our agreed audit timetable on 18 August 2023 however the Joint Report by the Chair and Chief Executive was not part of the submission and not received until very late in the audit process. The document forms part of the Performance Report and is covered by both audit opinions. The Joint Report which comments on the 'looking back' should be completed and submitted, ideally, at the same time as the unaudited accounts. We have discussed this with officers who agree to improve the timing for future years.

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## **Recommendation 1**

The Joint Report by the Chair and Chief Executive which forms part of the Performance Report should be completed and submitted as part of the unaudited accounts package.

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### **Good progress was made on prior year recommendations**

**23.** Creative Scotland has made good progress in implementing the audit recommendations identified in the 2021/22 Annual Audit Report. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

**24.** In previous years we have raised the importance of addressing internal audit recommendations in a timely manner. We note that Creative Scotland have made good progress in addressing internal audit's recommendations as highlighted in the 2022/23 Internal Audit Report which indicated that of the 20 recommendations outstanding, 15 (75%) are partially complete and 5 (25%) are not yet due. The position at November 2023 was that of 9 recommendations outstanding, 5 were partially complete and 4 incomplete.

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## 2: Financial management

Financial management means having sound budgetary processes, the ability to understand the financial environment and whether internal controls are operating effectively.

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### Conclusion

There are effective and appropriate arrangements in place to secure sound financial management.

Creative Scotland operated within its grant-in-aid cash allocation, with a small net surplus of £7,000 for the year.

The Creative Scotland National Lottery Distribution Fund produced a £3.1 million deficit on the Fund, taking its general reserve balance to £22.1 million as at 31st March 2023.

Creative Scotland has appropriate and effective financial management in place with regular budget monitoring reports provided to the Board.

Controls within the main financial systems are operating effectively while standards for the prevention and detection of fraud remain appropriate.

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### Creative Scotland and the Creative Scotland National Lottery Distribution Fund operated within its revised budget in 2022/23

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

**26.** Creative Scotland has reported a net expenditure of £60.5 million against its overall budget for 2022/23. The general fund reserve balance is a surplus of £1.9 million.

**27.** The Creative Scotland National Lottery Distribution Fund has reported income of £32.6 million and expenditure of £35.7million. This results in a deficit of £3.1 million for the year. The budgeted deficit was £6.7 million, which constitutes a £3.6 million variance. This was mainly due to a £2.8 million underspend on grants during 2022/23.

### Budget processes were appropriate.

**28.** We reviewed Creative Scotland's budgetary processes and budget monitoring arrangements during 2022/23. The 2022/23 budget was initially scrutinised at the April 2022 Finance and General Purposes Committee before

being approved by the Board in May 2022. Management accounts were prepared monthly and are reviewed by the Senior Leadership Team. Budgetary updates were also taken to meetings of the Finance and General Purposes Committee.

**29.** Creative Scotland's budget decreased in comparison to 2021/22 due to no emergency Covid-19 funding being distributed during 2022/23. This represented a decrease of approximately £69 million as shown in Note 8 of Creative Scotland's 2022/23 Annual Report and Accounts.

**30.** We observed that senior management and members receive regular and accurate financial information on the Creative Scotland and Creative Scotland National Lottery Distribution Fund's financial position. We conclude that appropriate budget setting and monitoring arrangements are in place.

### **There are appropriate financial control arrangements in place**

**31.** From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any internal control weaknesses which could affect Creative Scotland and the Creative Scotland National Lottery Distribution Fund ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

**32.** Creative Scotland has recently implemented a new finance system which will address the significant cyber security risk posed by the old system. There has also been good progress in relation to identifying and creating digital risk registers, reporting cyber risks to senior management and the Board as well as further staff training. Work is actively ongoing in this area.

### **Internal audit**

**33.** Creative Scotland's internal audit function is carried out by Azets. Azets have completed their 2022/23 audit work and presented their Annual Audit Report to the June 2023 Audit and Risk Committee. The report concluded that, *Creative Scotland has a framework of governance, risk management and controls that provides reasonable assurance regarding the effective and efficient achievement of objectives.*

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

**34.** In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

**35.** Creative Scotland has adequate arrangements in place to prevent and detect fraud or other irregularities.

# 3: Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

## Conclusion

There are effective and appropriate arrangements in place to continue to deliver services.

Creative Scotland has plans in place to ensure it can continue to deliver services in the medium term including a three year financial plan for 2022/23 to 2024/25.

**36.** [Exhibit 4](#) sets out the wider scope risks relating to financial sustainability we identified in our 2022/23 Annual Audit Plan. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

**37.** The Director of Finance indicated concerns over the financial sustainability of some of the organisations which Creative Scotland supports. In part this is due to the short term nature of the funding that Creative Scotland are advised of from the Scottish Government, which in turns means that Creative Scotland cannot commit to medium or longer term funding for the bodies it supports. Over the year there has been uncertainty and changes in the expected grant-in-aid funding. These challenges are included in the risk register highlighting the potential for reduced funding and its impact. Management and Board members review this position throughout the year.

## Audit work has addressed the wider scope risks identified in our Annual Audit Plan

### Exhibit 4

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<b>Financial Sustainability</b> Public bodies continue to operate in an increasingly complex and challenging environment, where funding is reducing relative to rising demand and there is less certainty about budgets in the short to medium term.	2023/24 budget prepared with five-year outlook to 2027/28.  Plans for utilisation of reserves.  Effective budget monitoring by finance team.	Annual budget setting is in line with expectations with the draft budget presented to the Finance and General Purposes Committee before being presented and approved at the Board meeting.

Audit risk	Assurance procedure	Results and conclusions
<p>Creative Scotland is facing risks and challenges to its financial sustainability related to funding constraints relative to demand, and from its ability to effectively forward plan due to uncertainty and the timing of government funding streams.</p> <p>There remains a risk to financial sustainability in the medium to longer term.</p>	<p>Frequent re-forecasting of budgets.</p> <p>Regular financial reporting to the Board and Finance and General Purposes Committee.</p> <p>Further development of the Future Funding Framework including the Multi-Year Funding Programme.</p> <p>Ongoing communication with Scottish Government sponsor division.</p>	<p>Five-year financial projections were provided to the March 2023 Board for context to set the 2023/24 budget.</p> <p>Creative Scotland have agreed an internal audit on financial planning during 2023/24. This will specifically consider what scenario planning and longer-term financial planning measures might be possible in the context of our extremely short-term budget horizon.</p> <p><b>Conclusion:</b> The budget setting for 2023/24 includes projections for the next five years using the best information possible. Challenges will remain over the coming years however plans are in place to mitigate these risks as far as possible.</p>

Source: 2022/23 Annual Audit Plan

## Creative Scotland has prepared medium-term financial plans

**38.** Creative Scotland and the Creative Scotland National Lottery Distribution Fund's medium term financial plans were approved by the Board in March 2023. Creative Scotland and Creative Scotland National Lottery Distribution Fund forecasts additional costs arising, largely due to inflation. Creative Scotland has plans in place to utilise reserves should expenditure be more than the grant-in-aid funding received.

**39.** In addition, the Senior Leadership team have undertaken an examination of Creative Scotland's financial sustainability and monitoring and plan to explore other areas to gain a full understanding of the risks that could impact Creative Scotland.

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# 4: Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

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## Conclusion

Creative Scotland has clear plans in place to implement its vision, strategy and priorities.

There are effective and appropriate governance arrangements in place for delivery of plans.

Creative Scotland has effective and appropriate governance arrangements in place that support scrutiny of decisions made by the Board.

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## Creative Scotland has a clear vision and strategy

**40.** Creative Scotland has set out in its Strategic Framework its objectives and priorities including supporting the future recovery and renewal of the creative sector. There is a clear vision supported by effective prioritised corporate and operational planning which is linked into the budgetary control process. These strategic priorities and objectives also apply to the Creative Scotland National Lottery Distribution Fund.

## Governance arrangements are appropriate

**41.** Creative Scotland's governance arrangements have been set out in the Governance Statement in both sets of annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

**42.** Creative Scotland has appropriate and effective governance arrangements in place which support effective scrutiny, challenge and decision making. This is informed by our regular attendance at the Audit and Risk Committee and a review of Board and other committee papers as appropriate. The papers presented are detailed to provide effective scrutiny and challenge.

**43.** Audit and Risk Committee members are engaged and prepared and challenge officers, internal and external audit at the meetings. During 2022/23 all Audit and Risk Committee meetings were held in-person at Creative Scotland's main office in Edinburgh.



**44.** In September 2023 five new Board Members were appointed including a new Chair for the Audit and Risk Committee. A handover meeting was held between the outgoing and incoming Chair and a series of induction events and meetings are planned for the incoming Chair to minimise any disruption and provide continuity.

**45.** We have concluded that overall, Creative Scotland has appropriate governance arrangements in place which support effective scrutiny, challenge and decision making.

## Performance report

**46.** 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 both annual report and accounts.

**47.** 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.

**48.** We reviewed the performance report as part of our audit and noted that, while it does meet the statutory requirements of the FreM, it could be improved to tell a better story. In particular, the report lacked information on performance and reporting of performance against key objectives and key performance indicators. This recommendation has been raised by the previous auditors and remains ongoing.

**49.** The rationale for not requiring a change in 2022/23 is that the 2022/23 performance report meets the standard and there is no material issue overall affecting our opinions, it could just be improved. We discussed this with officers and suggested improvements for management to consider going forward as well as sharing our [Good Practice Note - Improving the Quality of Central Government Accounts](#) and the UK Government's [How to publish on GOV.UK - Accessible formats guidance](#). Officers have agreed to review the look, feel and layout of future annual accounts.

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## Recommendation 2

Creative Scotland should improve the structure and content of the 2023/24 performance report which is included in the annual report and accounts so that it accurately reflects the year looking back.

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## Climate change arrangements

**50.** The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**51.** Creative Scotland have a target of becoming net zero by 2030. This is a part of their Climate Emergency and Sustainability Plan. They aim to support the wider culture and creative sectors in Scotland to help achieve the Scottish Government's target of being net zero by 2045.

**52.** The 2022/23 annual report and accounts makes appropriate disclosures of the actions taken by Creative Scotland in the year to address the key targets within their Climate Emergency and Sustainability Plan.

**53.** The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

### **Annual assurance certificates and reports**

**54.** The Accountable Officer gains assurances for the Annual Governance Statement in the form of letters of assurance from the members of the Senior Leadership Team and also from the annual reports from the various committees within Creative Scotland.

**55.** All members of the Senior Leadership Team provided their certificates of assurance and these were presented to the November 2023 Audit and Risk Committee however the annual reports for the various committees have not been received and therefore cannot be considered as part of the audit.

**56.** The committee annual reports are not available until November 2023 and therefore cannot be considered as part of the audit. It would be advantageous to have these and the certificates of assurance available at the time when the unaudited accounts are submitted.

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### **Recommendation 3**

Creative Scotland should ensure that the various assurances and certificates are received at the same time or as close to when the unaudited financial statements are issued.

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# 5: Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

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## Conclusions

Creative Scotland has effective and appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.

Creative Scotland complies with best value duties through its Annual Review of Performance.

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## Creative Scotland demonstrates best value through their Annual Review of Performance

**57.** [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 characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

**58.** Creative Scotland measures its achievement of Best Value through their Annual Review of Performance. The 2022/23 Annual Review will be published in December 2023. The review covers a wide variety of areas that align with the SPFM guidance and key performance reporting information including an examination of funding, equalities, diversity and inclusion.

**59.** The Annual Performance Review for 2022/23 is due to be published in December 2023.

**60.** We were not in receipt of the 2022/23 Annual Review at the time of drafting this report. We have raised the timing of the Annual Review with officers and note the challenges at collecting and analysing data from the 120 organisations. We requested, where possible, that as much KPI data and/or comparators be included in both Creative Scotland's and the Creative Scotland National Lottery Distribution Fund's annual report and accounts.

**61.** Officers commented that performance information is now being requested from organisations two months earlier than previously and progress is being

made. This should allow for more timely reporting of performance in certain areas and enable adequate comparison year on year.

**62.** We are pleased to report that the 2022/23 annual report and accounts for both Creative Scotland and the Creative Scotland National Lottery Distribution Fund were updated to include prior year comparators where relevant and meaningful.

## **Performance Management**

**63.** The overall performance of Creative Scotland is assessed by the Board alongside the other committees. Creative Scotland continued to monitor key performance indicators throughout the year with performance reported to the Board on a regular basis.

**64.** Financial performance is assessed at the Finance & General Purposes Committee through quarterly management accounts. Updates are also provided to the Audit and Risk Committee by relevant officers to assist with scrutiny and challenge in performance management.

**65.** A new suite of key performance indicators (KPIs) was agreed by Creative Scotland and the Scottish Government during 2022/23 and reflected in the 2023/24 Annual Plan. Going forward the refreshed suite of KPIs will feature on the monitoring dashboard used by Creative Scotland. We will review the KPIs and reporting as part of our 2023/24 audit as part of normal audit procedures.

## **National performance audit reports**

**66.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. All the reports can be found on the Audit Scotland website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Appendix 1: Action plan 2022/23

## 2022/23 recommendations

Issue	Recommendation	Agreed management action / timing
<p><b>1. Joint Report by Chair and Chief Executive</b></p> <p>The Joint Report by the Chair and Chief Executive which forms part of the performance report was not completed and submitted to audit for review until 1 November 2023.</p> <p>The document forms part of the performance report and should be completed and submitted as part of the unaudited accounts package.</p>	<p>The Joint Report which comments on 'looking back' should be completed and submitted at the same time as the unaudited accounts (refer paragraph 22).</p>	<p>Agreed, the Joint Report will be provided at the same time as the unaudited 2023/24 accounts.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: September 2024.</p>
<p><b>2. Performance report</b></p> <p>The performance report meets the minimum statutory requirements of the FReM however it could be improved to tell a better story. In particular, the report lacked information on performance against key objectives and key performance indicators.</p>	<p>Creative Scotland should improve the structure and content of the performance report which is included in the annual report and accounts so that it accurately reflects the year looking back (refer <a href="#">paragraphs 48-51</a>).</p>	<p>The performance report was enhanced in 2022/23 with additional information being provided, and further improvements will be investigated for 2023/24.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: September 2024</p>
<p><b>3. Annual assurance certificates and reports</b></p> <p>The annual assurance statements provided by the committees and Senior Leadership Team within Creative Scotland will not be received and approved by the Board until November 2023. This is late in the annual</p>	<p>Creative Scotland should ensure that the various assurances and certificates are received at the same time or as close to when the unaudited financial statements are approved and submitted to audit (refer paragraph 55-57).</p>	<p>Agreed, Certificates of assurance will be provided with the 2023/24 unaudited accounts.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: September 2024</p>

Issue	Recommendation	Agreed management action / timing
<p>process and any issues that may be flagged in these assurance certificates/reports could have an impact on the annual governance statement and the accounts.</p> <p>There is also a risk that key information is not considered in a timely fashion to enable effective scrutiny, challenge and rectification.</p>		

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Performance Reporting (2021/22)</b></p> <p>The FReM requires the Performance Report, included within the annual report and accounts, to include detailed disclosure to enable the reader to understand the development, performance and position of the body.</p> <p>Whilst Creative Scotland discloses outcomes and performance measures in its Annual Review of Performance, this information is not included within the Performance section of the Annual Report and Accounts.</p> <p><b>Risk</b> – A clear and understandable picture of Creative Scotland’s performance against objectives is not demonstrated in the Performance Report.</p>	<p>Creative Scotland should include a more detailed performance analysis and review against indicators in their Performance Report.</p>	<p>The deadline for the 2022/23 data was moved back to July 2023, and all active RFOs have submitted data as requested. For 2022/23 Creative Scotland have added in a few more KPIs where possible and shown figures against the prior year to enhance the readability of the performance report.</p> <p><b>Superseded</b></p> <p>See Recommendation 2 above.</p>
<p><b>2. Creative Scotland Grant Recipient Withdrawal (2021/22)</b></p>	<p>All departments should maintain good communication with the</p>	<p><b>Complete</b></p> <p>Additional checks completed for Screen awards in</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>As part of our grant's outstanding balance testing, we identified one award totalling £350,000, that the recipient withdrew from the award. The official withdrawal was in October 2021. However, the award was not written back until 2022/23.</p> <p><b>Risk</b> – grants outstanding and expenditure are both overstated.</p>	<p>Funding and Finance teams to allow all information regarding grants to be reflected in the ledger and financial statements.</p>	<p>February 2023 to ensure late withdrawals captured.</p>
<p><b>3. Depreciation Annual Charge for CCA Building (2021/22)</b></p> <p>Creative Scotland changes the useful life of its building back to 35 years (original useful life) every time the asset is revalued by external valuers. This means that the building will never be fully depreciated.</p> <p><b>Risk</b> – The depreciation charged may be incorrect as the useful life of the asset is not appropriate.</p>	<p>Creative Scotland should discuss and agree the appropriate useful life for the building with the valuer. This will allow depreciation to be charged appropriately over the useful life of the asset.</p>	<p><b>Outstanding</b></p> <p>Action not due at this time</p> <p><b>Responsible Officer:</b> Finance Manager</p> <p><b>Target Date:</b> 31 March 2025</p>
<p><b>4. ICT Strategy (2021/22)</b></p> <p>Creative Scotland does not have a formalised ICT Strategy document.</p> <p><b>Risk</b> – An ICT Strategy is a document which outlines how your organisation's ICT will support your overall corporate objectives and strategy over a defined period. Not having one in place might result in a lack of focus in relation to ICT.</p>	<p>Creative Scotland should create a formalised ICT Strategy document.</p>	<p><b>Outstanding with new revised action date</b></p> <p>The new Digital Strategy will be completed in Q4 of FY2023/24. The strategy will be informed by the outcomes of an internal audit on Cyber Security and an Advisory Audit Report on Digital Strategy being prepared by our internal auditors in Q4.</p> <p><b>Responsible Officer:</b> Head of Digital</p> <p><b>Revised Date:</b> 31 March 2024</p>
<p><b>5. Control Improvements (2021/22)</b></p>	<p>Creative Scotland should maintain good audit evidence to demonstrate that review of</p>	<p><b>Complete</b></p>

Issue/risk	Recommendation	Agreed management action/timing
<p>As part of our walkthrough testing of general ledger key controls, there were two instances where checks carried out by the finance team were not documented. This related to:</p> <ul style="list-style-type: none"> <li>• Journal authorisation</li> <li>• Monthly reconciliation review.</li> </ul> <p><b>Risk</b> – Good, clear, audit evidence is not available to support any work carried out.</p>	<p>journals and reconciliations has taken place.</p>	<p>A pilot was undertaken on Business Central for electronic journal sign off. The results of this were reviewed and we are engaging with our software supplier to refine the workflow so we capture general journals only.</p> <p>As part of the new finance system implementation, we are also reviewing reconciliations and sign off as part of the management accounts refresh.</p>
<p><b>6. NFI (2021/22)</b></p> <p>From our review of the most recent NFI exercise, we concluded Creative Scotland's performance as being red. There were specific reasons for this performance, however, Creative Scotland did not submit the data or review the resulting match before the national deadline.</p> <p><b>Risk</b> – Potential fraud matches may be missed if the data is not submitted or any resulting matches are not reviewed.</p>	<p>Creative Scotland should take all possible steps to ensure that NFI data sets are submitted on time. Creative Scotland should then invest time in completing a review of any matches identified through the exercise.</p>	<p><b>Complete</b></p> <p>Payroll data was provided for the 2022 exercise at the deadline date.</p> <p>Creditors data had been removed from the dataset for Creative Scotland by the Cabinet Office. We were unable to provide data when requested due to the migration of the finance system in the period April to May 2023.</p> <p>The next NFI exercise in 2024 will include the full data set.</p>
<p><b>7. Certificate of assurance checklist (2021/22)</b></p> <p>As part of the certificate of assurance process, Creative Scotland do not have accompanying documentation such as a checklist to support the certificates completed by Senior Leadership.</p> <p><b>Risk</b> – Creative Scotland is not following guidance set out by the Scottish Public Finance Manual.</p>	<p>Creative Scotland should, in line with the SPFM and good practice, implement supporting documentation in the form of a checklist to be completed by the Senior Leadership Team alongside their Certificates of Assurance.</p>	<p><b>Complete</b></p> <p>Checklists completed by SLT.</p>



Issue/risk	Recommendation	Agreed management action/timing
<p><b>8. Register of Interest review (2021/22)</b></p> <p>Creative Scotland currently only carry out a reasonableness check on the Register of Interest.</p> <p><b>Risk</b> – The register of interest might not be complete.</p>	<p>Creative Scotland should consider carrying out a completeness review of declarations of interest made by board members. This could include a Companies House check.</p>	<p><b>Complete</b></p> <p>The Register of Interests was reviewed by the Director of Finance and Executive Director of Operations. It was presented in full as a Board paper to the September 2023 Board meeting.</p>
<p><b>9. Senior Leadership Team Registration of Interest (2021/22)</b></p> <p>Only four of the Senior Leadership Team completed the registration of interest form. All Senior Leadership Team members should complete the form timeously when there is any update to their circumstances and, as a minimum, on an annual basis.</p> <p><b>Risk</b> – all related parties may not be identified.</p>	<p>All members of the Creative Scotland Senior Leadership Team should complete their registration of interest each year.</p>	<p><b>Complete</b></p> <p>All SLT members have completed a Register of Interest form on the MS Dynamics system for 2022/23.</p>
<p><b>10. Performance Indicators (2021/22)</b></p> <p>In 2018/19 we reported that Creative Scotland should build on its existing approach and develop a range of targets which could demonstrate progress against its performance indicators. For this year we are re-recommending that targets should be set for any objectives that have a quantitative aspect.</p> <p><b>Risk</b> – Creative Scotland is unable to demonstrate its performance against performance indicators.</p>	<p>Creative Scotland should endeavour to provide a more detailed suite of objectives with set targets, to allow analysis of its performance against key performance indicators.</p>	<p><b>Complete</b></p> <p>The full set of KPIs have now been agreed with the Scottish Government. These can be viewed in our 2023/24 <a href="#">Annual Plan</a>.</p>

## Outstanding recommendations pre 2021/22

Issue/risk	Recommendation	Agreed management action / timing
<p><b>Financial Planning (2020/21)</b></p> <p>Creative Scotland do not prepare longer-term financial plans. Creative Scotland may benefit from developing and implementing a longer-term financial plan.</p> <p><b>Risk</b> – In the absence of longer-term financial plans Creative Scotland may not be able to direct and control its finances efficiently.</p>	<p>Creative Scotland should consider developing and implementing longer-term financial plans.</p>	<p><b>In Progress</b></p> <p>Five- year financial projections were provided to the March 2023 Board for context to set the 2023/24 budget.</p> <p>Creative Scotland have agreed an internal audit on Financial Planning to be carried out in November 2023. This will specifically consider what scenario planning and longer-term financial planning measures might be possible in the context of our extremely short-term budget horizon.</p> <p>Critically, any additional forward planning we might put in place as a result of this must add value – the nature of the budget cycle at present, whereby budgets are uncertain even within the current financial year does not lend itself to meaningful long-term planning. Considering the very constrained resources that CS has for financial matters, we will need to carefully consider the opportunity costs of the different levels of resourcing that might be allocated to various long term planning options.</p> <p><b>Revised date:</b> 31 March 2024</p>
<p><b>Control Improvements (2020/21)</b></p> <p>Creative Scotland should consider implementing the</p>	<p>Creative Scotland should consider implementing the four improvements.</p>	<p><b>Complete</b></p> <p>Salary and payroll reports are now reviewed monthly.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>following improvements to its control environments:</p> <ul style="list-style-type: none"> <li>• Carry out a review of the monthly salary movements spreadsheet (exception report).</li> <li>• Carry out a review of the monthly payroll reconciliation.</li> <li>• Ensure all panel decision documents for approving awards are signed by an appropriate person.</li> <li>• Add detail to the Management Accounts Budget Monitoring spreadsheet, demonstrating the work that went into investigating and the cause for significant each variance.</li> </ul> <p>Improvements identified – These measures will further strengthen an already robust control environment.</p>		<p>Panel decisions are now documented using the Dynamics system and the embedded panel App.</p> <p>Appropriate Detail is added to the management accounts spreadsheet to back up SLT and Board reports.</p>
<p><b>Fraud Arrangements (2019/20)</b></p> <p>The Fraud Management and Gifts and Hospitality Policy have not been updated since 2017.</p> <p>Planned staff training over procurement fraud related issues during 2019/20 was delayed as a result of Covid-19.</p> <p><b>Risk</b> – Policies do not adequately address the evolving nature of risks relating to fraud and corruption.</p> <p>There is a risk that staff do not have updated knowledge and experience of procurement fraud related</p>	<p>Policies relating to the prevention and detection of fraud and corruption should be reviewed and updated on a regular basis to ensure they adequately address the evolving nature of risk relating to fraud and corruption.</p> <p>Staff should be provided with relevant and up to date procurement fraud related training.</p>	<p><b>Complete</b></p> <p>The Gifts and Hospitality Policy was presented to the March 2023 Audit and Risk Committee meeting for approval and given full approval at the June 2023 meeting.</p> <p>The Fraud Policy was reviewed and approved at the November 2023 Committee.</p> <p>Procurement Fraud training: Finance staff have received updates and briefing on fraud prevention including how to raise suspicions on potentially fraudulent transactions.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>issues, which may particularly be relevant with the changing Covid-19 landscape.</p>		
<p><b>Openness and transparency (2018/19)</b></p> <p>Board and other committee meetings are held in private. Creative Scotland publishes approved Board minutes on the website, but no Board or other committee papers are available. With increasing expectations for openness in the conduct of public business, Creative Scotland should continue to regularly revisit this area to ensure the public has access to relevant information.</p> <p><b>Risk</b> – Creative Scotland could be perceived to operate in a manner that is not open and transparent, leading to reputational damage.</p>	<p>There is scope for Creative Scotland to improve transparency by making further Board and committee information available to the public.</p>	<p><b>Complete</b></p> <p>Minutes of the Audit and Risk and Finance and General Purposes committee are now available on the Creative Scotland <a href="#">website</a>.</p>

Source:

Creative Scotland and Creative Scotland NLDF Annual Audit Report 2018/19  
Creative Scotland and Creative Scotland NLDF Annual Audit Report 2019/20  
Creative Scotland and Creative Scotland NLDF Annual Audit Report 2020/21

# Creative Scotland / Creative Scotland National Lottery Distribution Fund

## 2022/23 Annual Audit Report

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