

# sportscotland Group and Lottery Fund

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

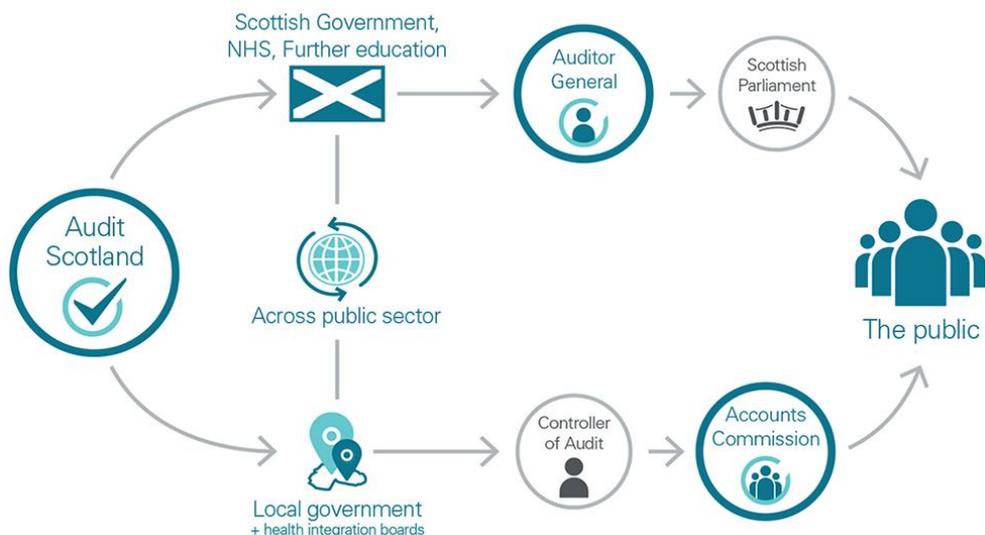
Prepared for sportscotland Group and Lottery Fund

31 January 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for sportscotland. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work includes consideration of the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant accounting estimates by management, and evaluation of key assumptions.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of any significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>sportscotland Group and Lottery Fund receive other income streams in addition to grant in aid from the Scottish Government and National Lottery funding. The extent and nature of this income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>The Code of Audit Practice extends</p>	<p>Income is principally received from the Scottish Government monthly draw downs of grant in aid and monthly draw downs from the National Lottery Distribution Fund. Expenditure is mainly administered through agreements with</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of income and expenditure transactions, including cut-off, focusing on the areas of greatest risk.</p>

Audit Risk	Management assurance	Planned audit work
<p>the ISA240 assumption on fraud over income to aspects of expenditure.</p>	<p>Scottish Governing bodies, Local Authorities and sports organisations which are governed by investment agreements.</p>	
<p><b>3 Estimation and judgements</b> There is a significant degree of subjectivity and estimation in the measurement and valuation of the material account areas of non current assets and grant commitments. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>The District Valuation office will provide a formal valuation of the non-current assets as part of the 5 yearly reviews.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer. Focused substantive testing of key areas identified.</p>
<p><b>4 Pensions Accounting</b> Sportscotland accounts for its participation in the Strathclyde Pension Fund and in the Scottish Teachers Superannuation Scheme (STSS) in accordance with IAS19 Retirement Benefits, using valuation information provided by scheme actuaries.  There is an inherent risk of misstatement of pension charges and liabilities due to the level of assumptions used in actuarial calculations, and the significant impact these can have on the financial statements.</p>	<p>Accounting entries derived from actuarial valuation information, and from information received from SPPA.</p>	<p>Completion of 'review of the work of an expert' for the Strathclyde Pension Fund scheme actuaries. Direct confirmation with Scottish Public Pensions Authority (SPPA).</p>
<p><b>5 New financial ledger</b> 1) New financial ledger in operation from 1/4/16. There is a risk of errors occurring in the migration of data from the previous system to the new system. (2) Possibility of errors inputting asset register information onto new system. (3) Staff unfamiliarity with system.</p>	<p>Reconciliations and checks were carried out by the finance team as part of the data migration process. Finance ran training courses at 6 locations around Scotland for key users of the Finance system.</p>	<p>Review of process for migration of data from old system to new, and detailed testing of transferred balances. Detailed testing of data input from asset register spreadsheet to ledger system.</p>
<p><b>6 Payroll system</b> (1) Payroll system change from 1/12/16, with possibility of errors in standing data and cumulative payroll balances transferred. (2) sportscotland processes salaries for a large number of governing bodies. Potential reputational damage should errors or processing delays occur.</p>	<p>Reconciliations and checks were carried out by the Finance team as part of the data migration process. The first two months of payroll under the new system have been issued in line with the timetable.</p>	<p>Review of process for migration of data from old system to new, and detailed testing of transferred balances.</p>
<p><b>7 Financial operating procedures</b> Financial operating procedures have not yet been updated to</p>	<p>These are currently being revised to take account of the new</p>	<p>Review and assessment of revised financial operating procedures when these become available.</p>

Audit Risk	Management assurance	Planned audit work
<p>support the introduction of the new financial ledger and payroll system. There is a lack of authoritative guidance to support users in entering and managing transactions in the system. This could lead to both inconsistencies and errors.</p>	<p>system and will be forwarded once complete.</p>	
<p><b>8 Inverclyde project costs</b></p> <p>Inverclyde project will be classed as Assets under Construction as at 31 March, 2017, prior to being gifted to the Trust Company, and will be audited as part of our Non Current Assets work.</p> <p>There is a risk that cumulative costs recognised may include errors or be incomplete.</p>	<p>The major parts of the construction, including the build contract with Morrisons, the advisors contracts and the Maintenance Shed will be completed by year end. Final accounts will be agreed, thus giving comfort as to the calculation of the value of the work undertaken.</p>	<p>Detailed review of costs associated with the project, correct cut off procedures and any estimates employed.</p>
<p><b>Wider dimension risks</b></p>		
<p><b>9 Financial sustainability</b></p> <p>Scottish Government Spending Plans and Budget 2016-17 imposed a significant reduction in spending across sportscotland. The total budget reduced from £71.8m in 2015/16 to £45.8m in 2016/17. The revenue budget decreased from £34.2m in 15/16 to £29.9m in 16/17. Budgets are expected to reduce further in 17/18; this represents a risk to the financial sustainability of sportscotland and may negatively impact on service delivery and the achievement of the goal of building a world class sporting system in Scotland.</p>	<p>Risk recognised in the strategic risk register. Ongoing budget discussions are taking place with funding bodies.</p>	<p>Review and assessment of the adequacy and robustness of medium to long-term financial plans.</p> <p>Focused review of any forecasting or scenario planning feeding into financial plans.</p>
<p><b>10 Pension Fund Deficit</b></p> <p>The sportscotland pension fund is in deficit (almost £6m as at 31 March, 2016) which represents an additional risk to financial sustainability.</p>	<p>There is a letter from Scottish Government in 2007 giving support. An updated letter has been requested.</p>	<p>Monitor engagement with SG on this issue.</p>
<p><b>11 Value for money</b></p> <p>Recent media coverage has focussed public and government attention on the outcomes from expenditure on sports development, Continuing negative publicity, whilst not necessarily justified nor accurate, may impact adversely on the organisation's reputation, and</p>	<p>sportscotland is in regular contact with Scottish Government, including quarterly sponsor team meetings to discuss activities and outcomes as well as budgets and to ensure that activities are in line with the Strategic</p>	<p>Consider quality and effectiveness of management responses to media exposure.</p>

Audit Risk	Management assurance	Planned audit work
on its ability to source ongoing necessary funding.	Guidance letter issued by Scottish Government.	

## Reporting arrangements

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

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Annual Audit Report including ISA 260 requirements	16 August 2017	16 August 2017
Signed Independent Auditor's Report	16 August 2017	16 August 2017

## Audit fee

- 7.** The proposed audit fee for the 2016/17 audit of sportscotland Group and Lottery Fund is £45,530. In determining the audit fee we have taken account of the risk exposure of sportscotland Group and Lottery Fund, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 15 May, 2017.
- 8.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### **Audit & Risk Committee and Accountable Officer (or equivalent)**

**9.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**10.** The audit of the financial statements does not relieve management or the Audit & Risk Committee, as those charged with governance, of their responsibilities.

### **Appointed auditor**

**11.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and are guided by the auditing profession's ethical guidance.

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

# Audit scope and timing

## Financial statements

**13.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

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

**14.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the sportscotland Group and Lottery Fund and its expenditure and income for the year
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income
- whether the information included in the performance report is consistent with the financial statements
- whether the part of the Remuneration and Staff Report to be audited is properly prepared.

**15.** The Group financial statements comprise of the balances and transactions of the main sportscotland organisation combined with those of the related Trust Company. Grant Thornton are continuing to audit the Trust Company for 2016/17. In order to arrive at our opinion on the financial statements of the Group, we will obtain such assurances as are necessary from Grant Thornton on their audit of that component body.



## Materiality

**16.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below, and have set separate levels for the Lottery Fund (LF). The calculated materiality values for sportscotland Group and Lottery Fund are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017, based on the audited accounts for 2015/16.	£591,000 LF £305,000
<b>Performance materiality</b> - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 20% of planning materiality.	£118,000 LF £61,000
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£6,000 LF £3,000

**17.** We review and report on other information published with the financial statements including the performance report, annual governance report and the remuneration and staff report. Any issue identified will be reported to the Audit and Risk Committee.

### Timetable

**18.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at

**19.** [Exhibit 4](#) which takes account of submission requirements and planned **Audit and Risk Committee dates**:

### Exhibit 4 Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	15 May 2017
Latest date for final clearance meeting with Head of Finance and Governance	5-9 June 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	16 August 2017

Independent auditor's report signed

16 August  
2017

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### **Adequacy of Internal Audit**

**20.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is currently provided by BDO.

### **Adequacy of Internal Audit**

**21.** Based on our review of the internal audit function, we are satisfied that the service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation and reporting procedures in place. We intend to place specific reliance on internal audit's work as outlined in paragraphs 19 and 20 below.

### **Areas of reliance**

**22.** To support our audit opinion on the financial statements we do not plan to place formal reliance on any specific internal audit review carried out for 2016/17.

**23.** In respect of our wider dimension audit responsibilities we plan to consider the following areas of internal audit work:

- New finance system
- Risk management
- Financial planning
- Inverclyde project management
- High performance investment processes
- Direct club investment
- Business performance management

### **Audit dimensions**

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

## Exhibit 5

### Audit dimensions



#### Financial sustainability

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

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

#### Financial management

**26.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

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

#### Governance and transparency

**27.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether sportscotland can demonstrate that the governance arrangements in place are appropriate and operating effectively

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

### Value for money

**28.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- sportscotland can provide evidence that it is achieving value for money in the use of its resources.
- sportscotland can demonstrate that there is a clear link between money spent and outcomes delivered.
- sportscotland can demonstrate that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

### Independence and objectivity

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

**30.** The engagement lead for sportscotland Group and Lottery Fund is Elaine Boyd, Assistant Director. Auditing and ethical standards require the appointed auditor Elaine Boyd to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of sportscotland Group and Lottery Fund.

### Quality control

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

**32.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

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

# sportscotland Group and Lottery Fund

## Annual Audit Plan 2016/17

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

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Audit Scotland, 4th Floor, South Suite, 8 Nelson Mandela Place, Glasgow G2 1BT  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)