

sportscotland Group and Lottery Fund

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for sportscotland Group and Lottery Fund
March 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of sportscotland Group and Lottery Fund. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- review sportscotland Group and Lottery Fund's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to sportscotland Group and Lottery Fund through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help sportscotland Group and Lottery Fund promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Respective responsibilities of the auditor and sportscotland Group and Lottery Fund

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and sportscotland Group and Lottery Fund. Key responsibilities are summarised below.

Auditor responsibilities

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

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

Sportscotland Group and Lottery Fund responsibilities

8. Sportscotland Group and Lottery Fund is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, sportscotland Group and Lottery Fund has 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 deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for sportscotland Group and Lottery Fund are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for sportscotland Group and Lottery Fund

Materiality	Sportscotland Group	Lottery Fund
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£375,000	£240,000
Performance materiality – 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 assessed performance materiality at 65% of planning materiality.	£245,000	£155,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£10,000	£7,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of sportscotland Group and Lottery Fund, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</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>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Test journals entries • Review accounting estimates for biases • Test significant transactions outside the normal course of business. • Focussed testing of accounting accruals and prepayments.
<p>2. Risks of material misstatement by fraud over 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</p>	<p>Expenditure is mainly administered through partnership agreements with Sport Governing Bodies and Local Authorities and for facilities projects through investment agreements with sports</p>	<ul style="list-style-type: none"> • 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.

Significant risk of material misstatement	Sources of assurance	Planned audit response
incur significant expenditure on the award of grants and therefore there is an inherent risk of fraud over expenditure.	organisations and Local Authorities.	<ul style="list-style-type: none"> Component assurances covering Trust expenditure.

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of income. We have excluded the risk of fraud over income from our significant audit risks on the basis that the value of income is immaterial after excluding the funding from the Scottish Government, UK Government and Lottery Fund. We therefore assess that the risk of material misstatement arising from fraud over income is limited. We have not, therefore, incorporated specific work into our audit plan in this area over and above our standard audit procedures.

Other areas of audit focus

16. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

17. The areas of specific audit focus are:

- Valuation of pension costs. We will consider the reasonableness of actuarial estimates on material elements of the valuation and the accuracy of information provided to the actuary by sportscotland. We will also evaluate the professional competence of the actuary.
- Valuation of investment property. We will review the information provided to the external valuer by sportscotland and evaluate the professional competence of the valuer.

Group Consideration

18. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

19. Sportscotland has a group which comprises the related Trust Company. The audit of the Trust Company for 2021/22 is undertaken by Wylie & Bisset. We will

obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the Trust Company on which to base our group audit opinion.

Audit risk assessment process

20. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

21. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

22. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

23. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Duty of Best Value

24. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within sportscotland Group and Lottery Fund.

25. Additionally, as part our Best Value work, we will be carrying out a review of the Best Value characteristic “fairness and equality” within sportscotland Group and Lottery Fund.

Audit dimension risks

26. Based on our risk assessment process, we have not identified any new significant audit dimension risks. We will ensure that we follow up all previously reported risks/recommendations in these areas and our findings will be reported through our Annual Audit Report.

27. We are required to consider, at least once during our audit appointment, how equalities are advanced by each audited body and we will carry out work in this area during the 2021/22 audit of sportscotland Group and Lottery Fund.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

28. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 7](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

29. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

30. We will provide an independent auditor's report to sportscotland Group and Lottery Fund, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the sportscotland Group and Lottery Fund and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

31. [Exhibit 7](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 7 2021/22 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	25/03/2022	Agreed by correspondence
Independent Auditor's Report	28/10/2022*	18/10/2022
Annual Audit Report	28/10/2022*	18/10/2022

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

Timetable

32. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 8](#) that has been discussed with management.

33. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently whilst at the same time maintaining high standards of quality. The prioritisation and sequencing of audits across Audit Scotland has impacted on the timetable of the financial statements audit of sportscotland Group and Lottery Fund as detailed in [Exhibit 8](#).

34. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 8 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	2 September 2022
Latest date for receipt of assurances from Group's Component Auditors	2 September 2022
Agreement of audited and unsigned annual report and accounts	7 October 2022
Latest date for final clearance meeting with the Head of Finance	10 October 2022
Issue of Letter of Representation, proposed Independent Auditor's Report and Annual Audit Report to those charged with governance	12 October 2022
Board meeting to sign Annual Report and Accounts	26 October 2022
Signed Independent Auditor's Report	28 October 2022

Source: Audit Scotland

Audit fee

35. The proposed audit fee for the 2021/22 audit of sportscotland Group and Lottery Fund is £49,900 (2020/21: £48,940). In determining the audit fee, we have

taken account of the risk exposure of the 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.

36. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers 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.

Other matters

Internal audit

37. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

38. From our initial review of the internal audit plans, we plan to place reliance on internal audit's work on equality and diversity. We also plan to consider the findings of Internal Audit on the investments process.

Independence and objectivity

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

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

Quality control

41. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

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

43. 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

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www.audit-scotland.gov.uk/accessibility

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