

Creative Scotland and Creative Scotland National Lottery Distribution Fund

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Creative Scotland, Creative Scotland National Lottery Distribution Fund
and the Auditor General for Scotland

November 2021

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Key messages

2020/21 annual report and accounts

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

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

Financial management

Creative Scotland has appropriate and effective financial management arrangements in place.

Progress has been made on addressing internal audit recommendations within agreed timescales.

Overall, Creative Scotland has appropriate arrangements in place for the prevention and detection of fraud and corruption. However, some internal policies still require to be updated.

Financial sustainability

Creative Scotland prepares an annual financial plan and produces three-year financial forecasts as part of the budget setting process. However, no medium or longer-term financial plan has been developed.

Creative Scotland's main focus during 2020/21 was to keep funding flowing to help sustain individuals and organisations through the immediate short term and looking ahead to the medium/long term recovery. To deliver this, Creative Scotland received £75.7 million additional funding.

Creative Scotland provided monthly returns to SG Finance on outturn and spend and specified costs/grant expenditure relating to Covid 19

Governance and transparency

Creative Scotland has appropriate and effective governance arrangements in place.

The 2019/20 revised governance arrangements remained in place and were reasonable and appropriate.

The Performance report was prepared in line with the reduced FReM requirements for 2020/21.

Value for Money

Creative Scotland considers best value duties through its Annual Performance Review.

The Annual Performance Review was not published due to Covid-19 and the impact it had on the collection of data on performance measures.

To help individuals and organisations during the pandemic, Creative Scotland provided unprecedented levels of funding.

Introduction

1. This report summarises the findings from our 2020/21 audit of Creative Scotland and Creative Scotland National Lottery Distribution Fund.
2. The scope of our audit was set out in our Annual Audit Plan (AAP) presented to the Audit and Risk Committee on 23rd March 2021. This report comprises the findings from:
 - an audit of the Creative Scotland and Creative Scotland National Lottery Distribution Fund annual accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The global coronavirus pandemic had a considerable impact on Creative Scotland's focus during 2020/21. Covid-19 Emergency Response Funds were established and overseen by Creative Scotland. As a result, Creative Scotland's grant commitments increased from £55.571 million to £139.516 million. The risk relating to this increased expenditure was included in our AAP, and we have adapted our audit work to address any new emerging risks.

Adding value through the audit

4. We add value to Creative Scotland through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
 - providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

Responsibilities and reporting

5. Creative Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. Creative Scotland is also responsible for compliance with legislation, putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
6. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016 and supplementary guidance and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

8. This report raises matters from our audit. The 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.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

Auditor Independence

10. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £46,930 for Creative Scotland and £24,510 for Creative Scotland National Lottery Distribution Fund as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. This report is addressed to Creative Scotland, Creative Scotland National Lottery Distribution Fund and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

The annual report and accounts for Creative Scotland and its group and 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 was incurred in accordance with applicable enactments and guidance.

Our audit opinions on the annual report and accounts are unmodified

12. The annual report and accounts for the year ended 31 March 2021 were approved by the board on 25 November 2021. As reported in the independent auditor's report:

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

Arrangements continue to be impacted by the pandemic

13. As a result of the continuing impact of Covid 19, the Scottish Government extended the deadline for submission of audited accounts but the statutory deadline for laying the accounts remains 31 December.

14. Last year an addendum to the 2019/20 Government Financial Reporting Manual (FReM) was issued permitting, but not requiring, bodies to omit the performance analysis section from the Performance Report. In addition, where relevant performance information has already been published elsewhere, and unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies were permitted to refer to the relevant publication rather than including the information in the annual report.

15. This guidance was extended to cover 2020/21 and Creative Scotland chose to make use of these amendments to the required information and prepared the annual report and accounts in accordance with the reduced FReM requirements.

Overall materiality is £745,000 for Creative Scotland and £187,000 for Creative Scotland National Lottery Distribution Fund

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

Exhibit 1 Materiality values

Materiality level	Group	Creative Scotland	CS National Lottery Distribution Fund
Overall materiality	£748 thousand	£745 thousand	£187 thousand
Performance materiality	£374 thousand	£373 thousand	£94 thousand
Reporting threshold	£22 thousand	£22 thousand	£6 thousand

Source: Creative Scotland and Creative Scotland National Lottery Distribution Fund Annual Audit Plan 2020/21

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

17. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. Appendix 2 also identifies the work we undertook to address these risks and our conclusions from this work.

Significant findings to report on the annual audit report and accounts

18. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. There were two issues from the work done on the identified risks of material misstatement.

19. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Untaken Leave Accrual</p> <p>IAS 19 states that 'when an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service: (a) as a liability (accrued expense), after deducting any amount already paid'.</p> <p>The Audit Scotland technical guidance note requires auditors to evaluate whether the untaken leave accrual includes employer's national insurance and pension contributions as well as salary costs. The untaken leave accrual calculation does not take account of national insurance and pension costs.</p> <p>Also, the salary recharge to the Lottery Fund decreased from 40% to 25% to recognise the additional workload Creative Scotland undertook for the Emergency Covid-19 Funds. However, the untaken leave accrual has been charged at 40%, when it should have been 25%.</p>	<p>The untaken leave accrual should be calculated in line with the appropriate technical guidance. In addition to this, the untaken leave accrual should be recharged in line with the recharge limits approved in year.</p> <p>Recommendation 1</p> <p>(refer Appendix 1, action plan)</p>
<p>2. Creative Scotland National Lottery Distribution Fund Grant Approval (Senior Leadership Team Approval)</p> <p>In line with Creative Scotland policy, grants above £100,000 should be sent to Senior Leadership Team for approval. One of the Lottery Fund grants tested above £100,000 was successfully approved by a panel but not referred to Senior Leadership Team in line with the award policy. Senior officers have advised that this was an</p>	<p>All grants above £100,000 should be sent to Senior Leadership Team for approval.</p> <p>Recommendation 2</p> <p>(refer Appendix 1, action plan)</p>

Issue	Resolution
isolated instance and further audit procedures carried out confirm this.	

Source: Audit Scotland

There were no identified material misstatements

20. Total misstatement identified was £64,833.68, which related to the untaken leave accrual recharge. This constitutes a £57,757.92 overstatement for Creative Scotland and a £7,075.76 understatement for Creative Scotland National Lottery Distribution fund.

21. We have reviewed the nature and causes of this misstatement and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

22. A misstatement totalling £64,833.68 was identified that has not been adjusted by management in the accounts, as they consider it not material. This would have increased net expenditure by £57,757.92 in Creative Scotland and decreased net expenditure by £7,075.76 in Creative Scotland National Lottery Distribution Fund ([Appendix 3](#)).

23. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. The gross sum of the unadjusted errors is below our materiality and has not affected our opinion.

Progress was made on prior year recommendations

24. Creative Scotland has made progress in implementing some of our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial Management

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

Main judgements

Creative Scotland has appropriate and effective financial management arrangements in place.

Progress has been made on addressing internal audit recommendations within agreed timescales.

Overall, Creative Scotland has appropriate arrangements in place for the prevention and detection of fraud and corruption. However, some internal policies still require updating.

Creative Scotland and Creative Scotland National Lottery Distribution Fund operated within budget in 2020/21

25. The main financial objective for the body 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 £145.739 million against its overall budget for 2020/21. The general fund reserve balance is a surplus of £1.147 million.

27. Creative Scotland National Lottery Distribution Fund has reported income of £33.855 million and expenditure of £20.812 million. This results in a surplus of £13.043 million. The budgeted surplus was £5.129 million which constitutes a £7.914 million variance. This variance is mainly attributable to additional National Lottery proceeds due to improved Lottery sales. In addition, there was an underspend in grants, mostly due to the deferral of some grant programmes until 2021-22 as the organisation focussed on emergency Covid-19 response programmes.

Budget processes were appropriate

28. We reviewed Creative Scotland's budgetary processes and budget monitoring arrangements during 2020/21. The 2020/21 budget was initially scrutinised at the 26th February 2020 Finance and General Purposes Committee before being approved by the Board on 26th March 2020. Management accounts were prepared monthly and reviewed by the Senior Leadership Team. Budgetary updates were also taken to meetings of the Finance and General Purposes committee.

29. From our review of management account reports and committee papers, we have confirmed that senior management and members receive regular, timely and up to date information on the financial position of Creative Scotland and the National Lottery Distribution Fund. The reports provide detailed information including forecasts of expenditure, comparisons of budget against actual spend and high-level explanations of variances. Creative Scotland has appropriate budgetary monitoring and control arrangements in place that allow members and officers to carry out effective scrutiny of finances.

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

Financial systems of internal control are operating effectively, however improvements could be implemented

31. We undertook a review of systems of internal controls. We carried out Initial System Reviews of the key financial systems and concluded that the controls were designed effectively. No significant internal control weaknesses were identified during the audit which could affect Creative Scotland's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

32. However, from our work we identified a few improvements that could be implemented. Please note these findings do not represent a risk of material misstatement and have been suggested as improvements to further strengthen the existing control environment at Creative Scotland.

33. The improvements related to payroll, evidence of grant approval and budget monitoring. Further detail on these recommendations can be found in [Appendix 1](#).

Reasonable progress on actioning Internal audit recommendations

34. In previous years we have raised the importance of addressing internal audit recommendations in a timely manner. For 2020/21, Internal Audit have reported that reasonable progress has been made in implementing the previous internal audit recommendations which have reached their target completion date, with 26 (48%) of the 54 recommendations past their due date classified as fully implemented. We will continue to monitor progress in this area in 2021/22.

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

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

36. We have reviewed the arrangements in place to maintain standards of conduct including the Code of Conduct for Members, Fraud Management, Whistleblowing, Anti-bribery and Staff Gifts and Hospitality policies. There are

established procedures in place for preventing and detecting any breaches of these standards including any instances of corruption.

37. We can conclude overall that appropriate arrangements are in place for the prevention and detection of fraud, error and irregularities. However, as reported in 2019/20, the Fraud Management policy was due to be updated in November 2019. Neither the Fraud Management policy nor the staff Gifts and Hospitality policy have been updated since 2017. The policies are currently tabled for review by June 2022 and are detailed in [Appendix 1 Point 10](#). It is important that these reviews are carried out.

38. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Creative Scotland did not submit this information by the due date. Payroll data was subsequently submitted after we requested this with officers, but we were advised that there were issues submitting the Creditors information due to working from home. Also, Creative Scotland was exceptionally busy administering Covid-19 response programmes which were given the highest priority. We do, however, recommend that Creative Scotland take all possible steps to allow the submissions to be carried out in the future.

Recommendation 3

Creative Scotland should take all possible steps to ensure that NFI data sets are submitted on time.

3. Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services

Main judgements

Creative Scotland prepares an annual financial plan and produces three-year financial forecasts as part of the budget setting process. However, no medium-term or longer-term financial plan has been developed.

Creative Scotland's main focus during 2020/21 was to keep funding flowing to help sustain individuals and organisations through the immediate short-term and looking ahead to the medium/long term recovery. To deliver this, Creative Scotland received £75.7 million additional funding.

Creative Scotland provided monthly returns to SG Finance on outturn and spend and specified costs/grant expenditure relating to Covid19.

Creative Scotland prepares three-year budget forecasts but is yet to develop a medium or longer-term financial plan

39. Creative Scotland has not yet developed a medium-term or longer-term financial plan. It prepares an annual financial plan and prepares three-year financial forecasts within budget setting papers. The financial budgets provide high level summaries of anticipated position including projections for income, grants and operating costs.

40. Creative Scotland's grant in aid budget is included within the Culture, Europe and External Affairs portfolio. The majority of Creative Scotland's overall budget is authorised through the Budget Act and any subsequent revisions. As such, the budget is updated annually when funding is confirmed by the Scottish Government and this is one of the main constraints faced by Creative Scotland in preparing medium to longer-term financial planning documents. Creative Scotland also receives funding from the UK National lottery. The totals are aggregated, and budgets proposed for different streams of expenditure.

41. The 2021/22 budget position forecasts a balanced Creative Scotland grant-in-aid position over the three-year forecasts to 2023/24. National Lottery income is projected to reduce by 11% to £28.5 million in 2021/22 and then remain static for future years.

42. As reported in previous years, Creative Scotland may benefit from developing and implementing a medium-term and longer-term financial plan, particularly given the forecasted negative reserve position of the National

Lottery Fund. In the absence of longer-term financial plans there is a risk that Creative Scotland may not be able to direct and control its finances efficiently.

Recommendation 4

Creative Scotland should consider developing and implementing medium to longer term financial plans.

Creative Scotland continues to be engaged in dealing with the financial impacts of Covid-19

43. Creative Scotland's initial response to the Covid-19 pandemic in the period to July 2020 included a commitment that all funding awards already committed would be honoured regardless of whether the funded activity was cancelled, reduced or rescheduled. In addition, a number of new funds were launched to support freelancers (Bridging Bursaries) and the Open Fund was re-purposed and re-launched to focus on sustaining creative development, with separate streams to support individuals and organisations. The targeted programmes were also reviewed, with focus given to supporting organisations and individuals.

44. In July 2020, the Scottish Government received funding from the UK Government for the cultural and heritage sectors and part of this was allocated to Creative Scotland. £75.7 million additional cash grant-in-aid was allocated to provide funding programmes to support individuals, organisations and other areas of targeted support. Creative Scotland provided monthly returns to Scottish Government Finance detailing its outturn and spend and specifying what costs/grant spend related to Covid-19. Creative Scotland also provided regular updates to the Scottish Government and the Scottish Parliament Culture Committee on the progress of Covid-19 emergency funding support.

45. The impact of Covid-19 on Creative Scotland's operating costs in the short term has been minimal. However, the arrangements put in place to support individuals and organisations through the emergency response and funding streams has been important to the sector. The medium to longer term financial impact of the pandemic is still developing.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

Creative Scotland has appropriate and effective governance arrangements in place.

The 2019/20 revised governance arrangements remained in place and were reasonable and appropriate.

The Performance Report was prepared in line with the reduced FReM requirements for 2020/21.

Overall governance and transparency arrangements were appropriate

46. The Creative Scotland Board is made up of members who are appointed by, and accountable to, the Scottish Government and have corporate responsibility for ensuring that Creative Scotland fulfils its aims and objectives, including delivery of its strategic objectives. The Board is required to meet at least four times a year in accordance with its Terms of Reference. The Board met on twelve occasions during 2020/21. The Board is supported by four subcommittees: Audit and Risk Committee; Finance & General Purposes Committee; Nominations Committee and the Screen Committee.

47. In 2019/20 we reported that we planned to attend the Board and Finance and General Purposes Committee as an observer. This would allow us to further assess the effectiveness of committee arrangements. We were asked to defer our attendance until 20/21 and unfortunately, this did not happen in 21/22. We hope to be invited to observe in 2021/22.

48. We have reviewed the minutes and document packs submitted to the Board and Finance and General Purposes Committee throughout the year. The papers are detailed and comprehensive to allow for effective decision making and scrutiny of performance.

49. We attend the Audit and Risk Committee meetings and can conclude that papers presented are of sufficient detail to provide members with the necessary information to understand issues and support scrutiny. The reports are generally provided to members in a timely manner to enable review in advance of

meetings. Furthermore, we conclude that members are sufficiently engaged during meetings and provide effective scrutiny and challenge.

50. Overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption have been concluded as appropriate. However, as detailed within the financial management section of this report, some policies require updating.

51. We conclude that overall governance arrangements are appropriate and effective in supporting governance and accountability.

The revised governance arrangements due to Covid-19 continued in 2020/21

52. In 2019/20 we reported that the impact of Covid-19 resulted in the establishment of revised governance arrangements. These allowed Creative Scotland to manage the unprecedented nature of the scale of the challenge to its staff and operations. Some of the revised governance arrangements included:

- Committee meetings are now held virtually via Teams
- Weekly group calls/meetings between the Chief Executive and the non-executive directors to keep them up to date with developments
- Additional meetings between the Chief Executive and the Chair of the Board
- Risk register updated to include consideration of Covid-19 related risks.

53. These arrangements are reasonable and appropriate in supporting good governance and accountability. They continued during 2020/21 and worked well.

Openness and transparency

54. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

55. The Annual Plan and Annual Performance Review are normally published each year and can be accessed from the Creative Scotland website. However, due to the impact of Covid-19, neither were published for 2020/21. Details of performance information that was readily available has been published in the Performance Reports. Creative Scotland do, however, intend to produce an Annual Review of Performance to consider the impact of Covid-19 this year. This will be on a case study basis rather than a Key Performance Indicator basis.

56. Board and other committee meetings are held in private. Creative Scotland publishes approved Board minutes on the website, but there is no publication of Board or other committee papers. 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. This was recommended in 2019/20 and has been detailed in [Appendix 1 Point 11](#), outstanding prior year recommendations.

5. Value for money

Using resources effectively and continually improving services

Main judgements

Creative Scotland considers best value duties through its Annual Performance Review.

The Annual performance Review was not published due to Covid-19 and the impact it had on the collection of data on performance measures.

To help individuals and organisations during the pandemic, Creative Scotland provided unprecedented levels of funding.

Creative Scotland consider best value through the Annual Performance Review

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. The main way in which Creative Scotland measures the achievement of its best value duties is through the Annual Performance Review. The review provides an assessment of performance during the year including an examination of funding; equalities, diversity and inclusion, environment, wellbeing and partnership working. Whilst the reviews do not specifically mention Best Value, they cover a wide range of areas that align with the SPFM's Best Value Characteristics of Vision and Leadership, Governance and Accountability, use of resources, Partnership and collaborative working, Working with Communities, Sustainability and Fairness and equality.

59. The 2020/21 Annual Performance Review has not been carried out due to Covid-19. The main focus during 2020/21 was to keep funding flowing to sustain individuals and organisations through the immediate short-term and looking ahead to the medium to longer term recovery. This has been achieved with the unprecedented amount of funding Creative Scotland provided to individuals and organisations. Creative Scotland does intend to carry out a review, on a case study basis, for 2020/21 but this has not been completed yet.

Performance Management

60. The performance of Creative Scotland is monitored by the Board and supporting committees. The Finance & General Purposes committee assess

financial performance through receipt of regular management reports and the Audit and Risk Committee receive reports from Internal Audit that evaluate the systems of internal control.

61. Creative Scotland has a 10-year plan ‘Unlocking Talent Embracing Ambition’ which sets out five ambitions. Each ambition has priorities which are aligned to the Scottish Government’s National Performance Framework. Creative Scotland’s Annual plan sets out the planned activity to support the delivery of these ambitions and priorities.

Performance measures reflected in the annual report and accounts

62. 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.

63. In 2019/20, a FReM Addendum was issued which allowed for reduced performance reporting which meant the work on the Performance Report was deferred. A similar FReM Addendum was issued for 2020/21, allowing for reduced performance reporting. Creative Scotland opted to apply the Addendum to its reporting and produced a Performance Overview instead of a Performance Analysis.

64. We plan to review key performance indicators in 2021/22 and would recommend that the enhancements to performance reporting agreed at the March 2020 Audit and Risk Committee are progressed and incorporated into the annual report and accounts for the 2021/22.

National performance audit reports

65. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to the body. These are outlined in [Appendix 4](#).

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Untaken Leave Accrual</p> <p>IAS 19 states that ‘when an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service: (a) as a liability (accrued expense), after deducting any amount already paid’.</p> <p>The Audit Scotland technical guidance note requires auditors to evaluate whether the untaken leave accrual includes employer’s national insurance and pension contributions as well as salary costs. The untaken leave accrual calculation does not take account of national insurance and pension costs.</p> <p>Also, the salary recharge to the Lottery Fund decreased from 40% to 25% to recognise the additional workload for Creative Scotland undertook for the Emergency Covid-19 Funds. However, the untaken leave accrual has been charged at 40%, when it should have been 25%.</p>	<p>The untaken leave accrual should be calculated in line with the appropriate technical guidance. In addition to this, the untaken leave accrual should be recharged in line with the recharge limits approved in year.</p> <p>Exhibit 2, Issue 1</p>	<p>Creative Scotland allows staff to carry forward up to 5 days of untaken annual leave to the next financial year. Additional flexibilities were provided for in 2020/21 due to additional workloads for staff working on emergency funding programmes. This resulted in a larger balance of untaken leave than in a normal financial year. An additional £75,000 of non-cash grant-in-aid funding was provided by the Scottish Government for the increase in the value of the accrual.</p> <p>Untaken annual leave is expected to be used in the next financial year, and is only paid out to staff on exception, usually at the end of employment.</p> <p>Creative Scotland does not pay pension contributions on any annual leave payments.</p> <p>We will review our untaken leave accrual policy and check the guidance to determine our compliance with IAS 19. We expect the balance to reduce in 2021/22 as staff utilise their undertaken leave.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – The untaken leave accrual does not reflect all associated costs. In addition, the salary recharge is not being applied consistently.</p>		<p>Finance Manager</p> <p>For the 2021/22 Annual Accounts.</p>
<p>2. Creative Scotland National Lottery Distribution Fund - Grant Approval (Senior Leadership Team Approval)</p> <p>In line with Creative Scotland policy, grants above £100,000 should be sent to Senior Leadership Team for approval. One of the Lottery grants tested above £100,0000 was successfully approved by a panel but not referred to Senior Leadership Team in line with the award policy. Senior officers advised that this was an isolated instance and further audit procedures carried out confirm this.</p> <p>Risk – By not following its award policy for grants, inappropriate awards may be made and governance arrangements not adhered to.</p>	<p>All awards should be approved in line with Creative Scotland policy.</p> <p>Exhibit 2, Issue 2</p>	<p>We will ensure the delegated authority policy is embedded in the funding programmes and that checks are taken to ensure that the correct authorisation has been given.</p> <p>Delegated authority approvals will be logged against relevant grants on the funding system.</p> <p>Director of Finance and Operations, Funding Manager</p> <p>31 December 2021</p>
<p>3. NFI Submission</p> <p>Due to the constraints of working from home and dealing with emergency funding for the Covid-19 pandemic, Creative Scotland was unable to submit the NFI payroll data on time and did not submit the Creditors data set.</p> <p>Risk – NFI is an important exercise to help detect fraud. Not submitting the data set means there is a risk that potential frauds could go undetected.</p>	<p>Creative Scotland should take all possible steps to ensure NFI data sets are submitted on time.</p> <p>Paragraph 35</p>	<p>We spoke to the Cabinet Office to obtain permission for a late submission of the payroll data and the data was submitted within the agreed timeframe.</p> <p>Due to homeworking, we were unable to extract the required data sets for creditors on this occasion.</p> <p>Finance Manager</p> <p>September 2022</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>4. Financial Planning</p> <p>Creative Scotland do not prepare medium-term or longer-term financial plans. Creative Scotland may benefit from developing and implementing a medium-term and longer-term financial plan.</p> <p>Risk – 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 medium to longer-term financial plans.</p> <p>Paragraph 39</p>	<p>Financial Plans for the current and subsequent 4 years are discussed at Executive and Board level as part of the annual budgeting setting process.</p> <p>Following the Scottish Government budget on 9 December 2021, a new medium term financial plan will be presented.</p> <p>Director of Finance 31 December 2021</p>
<p>5. Controls Improvements</p> <p>Creative Scotland should consider implementing the following improvements to its control environments:</p> <p>Carry out a review of the monthly salary movements spreadsheet (exception report).</p> <p>Carry out a review of the monthly payroll reconciliation.</p> <p>Ensure all panel decision documents for approving awards are signed by an appropriate person.</p> <p>Add detail to the Management Accounts Budget Monitoring spreadsheet, demonstrating the work that went into investigating and the cause for significant each variance.</p> <p>Improvements identified – These measures will further strengthen an already robust control environment.</p>	<p>Creative Scotland should consider implementing the four improvements.</p> <p>Paragraph 31</p>	<p>Agreed</p> <p>Finance Manager Funding Manager</p> <p>31 March 2022</p>

Outstanding prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>6. Annual Governance Statement</p> <p>The annual accounts and report provided for audit included the 2018/19 annual governance statement. There was also an increased number of presentational issues within the unaudited annual report and accounts in comparison to previous years.</p> <p>Risk – The audit is delayed due to the absence of comprehensive complete reports and this could delay the audit and/or impact on the issuing of the independent auditor certificate.</p>	<p>If remote working continues, we would recommend finance officers develop a project plan for the preparation and drafting of the annual report and accounts which builds in quality review arrangements.</p>	<p>The annual report and accounts presented for audit were of a good quality. ARC reviewed accounts on 26th October before formal November ARC meeting.</p> <p>Complete.</p>
<p>7. Asset Existence</p> <p>Our planned audit approach includes work to obtain assurances around the existence of assets. In March 2020 Creative Scotland purchased laptops to enable staff to work remotely whilst the offices were closed. We planned to select a sample of laptop serial numbers and request photographic evidence to confirm existence. We were advised that no record has been created of what laptop is held by each employee as they were shipped directly to employees from the warehouse. We have not been able to obtain assurance around the existence of these assets.</p> <p>Risk – The underlying fixed asset records are incomplete.</p>	<p>Procedures should be established to record all assets owned by Creative Scotland. Asset records should include the make and model of the asset and the unique serial number identifier along with details of portable assets held by staff working from home.</p>	<p>Staff are still substantially working from home.</p> <p>Outstanding</p> <p>This will be actioned when staff have returned to the office.</p> <p>ICT Manager 31 March 2022</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>8. Development Funds held in locked box</p> <p>The National Lottery Distribution Fund have a year-end trade receivable and payable of £50,844 relating to an invoice raised for the payment of development funds in a locked box. The invoice was raised to a third party rather than the grant recipient. No payment has been received from the third party.</p> <p>Officers have confirmed that the grant recipient in question has received further film award funding in 2019/20.</p> <p>Risk – Contracts are not honoured, and appropriate funds are not returned due to invoices being raised to the wrong organisation or individual.</p>	<p>Officers should ensure that invoices are raised to the correct individual or organisation. Consideration should also be given as to whether funding decisions should be influenced by outstanding issues from previous funding agreements.</p>	<p>Complete</p>
<p>9. Untaken leave accrual</p> <p>IAS 19 states that ‘when an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service: (a) as a liability (accrued expense), after deducting any amount already paid’.</p> <p>Audit Scotland technical guidance note requires auditors to evaluate whether the untaken leave accrual includes employer’s national insurance and pension</p>	<p>The untaken leave accrual should be calculated in line with the appropriate technical guidance.</p>	<p>Superseded.</p> <p>See ‘Recommendation 1’ in Appendix 1.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>contributions as well as salary costs.</p> <p>The calculation of untaken leave within the Creative Scotland accounts deducts employees holiday entitlement from the available working days which increases the daily annual rate. Furthermore, the accrual calculation does not take account of national insurance and pension costs.</p> <p>Risk – the untaken leave accrual is misstated</p>		
<p>10. Fraud Arrangements</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>Risk – 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 issues, which may particularly be relevant with the changing Covid-19 landscape.</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>Outstanding – see para 37</p> <p>Revised action</p> <p>Revised policies are expected to be taken to the Audit and Risk Committee at its meeting in March 2022</p> <p>31 March 2022</p>
<p>11. Openness and Transparency</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</p>	<p>There is scope for Creative Scotland to improve transparency by making further Board and committee information available to the public.</p>	<p>Outstanding – see para 56</p> <p>This recommendation has not been considered yet due to focus on other priorities during the year. The Chair and Chief Executive will review and consider this recommendation.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>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>Risk – Creative Scotland could be perceived to operate in a manner that is not open and transparent, leading to reputational damage.</p>		<p>Chair and Chief Executive 31 March 2022</p>
<p>12. Performance Reporting</p> <p>In 2018/19 we recommended that officers should enhance the reporting of performance within the statement of accounts to comply with the reporting framework. This includes identifying key performance indicators and ensuring these are measured against forward looking targets. Work in this area was understandably suspended while Creative Scotland dealt with the Covid 19 pandemic.</p>	<p>Work in this area should recommence once full FReM reporting is re-established.</p>	<p>Outstanding – see para 13</p> <p>Creative Scotland is reviewing the performance indicators it will use for the Annual Plan for 2022/23.</p> <p>Performance reporting for 2021/22 will comply with the FReM requirements.</p> <p>Director of Finance 31 March 2022</p>

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion.

Risks of material misstatement (RoMM) in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Detailed testing of journal entries.</p> <p>Detailed testing of grant income and expenditure to ensure this has been accounted for appropriately.</p> <p>Review of the apportionment of costs and accounting estimates for reasonableness</p> <p>Focussed testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Cut off testing.</p>	<p>Results: 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>Focussed 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. When selecting samples, we reviewed ledger or transaction listings for any transactions that were outside 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>Conclusion: We did not identify any incidents of</p>

Audit risk	Assurance procedure	Results and conclusions
<p>2. Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. Most of the expenditure within CS & CSNLDF relates to grants and the nature of this expenditure represents a risk of material misstatement in the financial statements.</p>	<p>Walk through testing of controls in place within the grant management system.</p> <p>Detailed substantive testing of grant expenditure, including authorisation and approval.</p>	<p>management override of controls.</p> <p>Results: From our walkthrough of the grant management system, we found the controls in place to be robust and adequately designed.</p> <p>As part of our substantive testing, we reviewed the authorisation on each of the grants. No issues were identified.</p> <p>Conclusion: No issues have been identified and no instances of fraud in expenditure were identified.</p>
<p>3. Estimation and Judgements</p> <p>A significant and material judgement is made over the estimation of grants outstanding at the financial year end. We recognise that this estimation represents a risk of material misstatement in the financial statements.</p>	<p>Detailed substantive testing of grant expenditure</p> <p>Focussed testing of year end estimates and assumptions.</p>	<p>Results: At our Team Audit Risk Assessment the risks identified at planning were re-assessed. We decided that this risk was no longer appropriate as the process in place for identifying outstanding grants is reasonable and robust. It was therefore decided to drop this as a RoMM when carrying out the substantive testing.</p> <p>Conclusion: This RoMM is no longer appropriate. Standard testing was carried out on grants outstanding, and no issues were identified.</p>
<p>4. Recharge of Salary Costs to CSNLDF</p> <p>Services provided by Creative Scotland are recharged to CSNLDF. This year the recharge for salaries has dropped from 40% to 25%. There is a risk that the level of recharge does not fairly reflect the true cost to</p>	<p>Focused testing of the percentage of salary costs recharged to CSNLDF and the underlying basis upon which this is calculated to ensure it has been accounted for correctly.</p>	<p>Results: We reviewed the supporting documentation and rationale behind the change in the recharge. We also sampled recharge amounts.</p> <p>Conclusion: We were satisfied with the rationale for the change in the recharge</p>

Audit risk	Assurance procedure	Results and conclusions
Creative Scotland of providing services to the National Lottery Distribution Fund.		and found no issues with the sampled recharge amounts.

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

Audit risk	Assurance procedure	Results and conclusions
<p>5. Financial Sustainability</p> <p>There is a risk that the National Lottery Funding received by CSNLDF will decrease in the long term. In the past, the Scottish Government increased grant in aid funding to offset any reduction in lottery funding. However, grant in aid funding may decrease or additional funding may not always be available.</p> <p>Creative Scotland should ensure it has appropriate budget monitoring and longer-term planning arrangements in place to address this challenge.</p>	<p>Monitor and review CS & CSNLDF management accounts.</p> <p>Review of longer term financial and savings plans.</p>	<p>Results: Reviewed the management accounts prepared to the Finance and General Purposes committee on a regular basis to monitor the ongoing financial position.</p> <p>Reviewed the financial plan for 2021/22 which includes projections to 2023/24.</p> <p>Conclusion: The annual budget for 2021/22 includes projections to 2023/24. This includes assumptions on long term funding from the Scottish Government and from the National Lottery fund.</p> <p>Management accounts were found to be subject to regular review by the Senior Leadership Team and by the Finance and General Purposes committee.</p>

Appendix 3. Summary of uncorrected misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £22,000 for Creative Scotland and £6,000 for Creative Scotland National Lottery Distribution Fund.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
Creative Scotland				
1. Accruals (Holiday Pay Accrual)				(58)
Expenditure	58			
Net impact	58			(58)
Creative Scotland National Lottery Distribution Fund				
2. Accruals (Holiday Pay Accrual)			7	
Expenditure		(7)		
Net impact		(7)	7	

Notes:

1. Entry 1 relates to the untaken leave accrual calculation impact for Creative Scotland. Employer pension and National Insurance costs were not factored into the calculation. The amount recharged to the Lottery Fund was then incorrectly applied at 40%, instead of 25%.
 2. Entry 2 relates to the untaken leave accrual calculation impact for Creative Scotland National Lottery Distribution Fund. Employer pension and National Insurance costs were not factored into the calculation. The amount recharged to the Lottery Fund was then incorrectly applied at 40%, instead of 25%.
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Appendix 4. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

Creative Scotland and Creative Scotland National Distribution Fund

2020/21 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk