

sportscotland Group and Lottery Fund

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the sportscotland Board and the Auditor General for Scotland

October 2021

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Key messages

2020/21 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 The financial statements of sportscotland Group and Lottery Fund give a true and fair view of the state of affairs of these bodies as at 31 March 2021 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.

financial management and sustainability

- 3 sportscotland has appropriate and effective financial management in place. The 2020/21 budget was revised and approved by the Board in June 2020 to reflect the impact of Covid-19.
- 4 Budget processes were appropriate, but future plans will continue to be impacted by the COVID-19 pandemic.
- 5 Systems of internal control were assessed as operating appropriately and effectively.
- 6 The Covid 19 outbreak has had a significant impact on the sporting system. sportscotland adapted its medium-term financial plan to recognise the uncertainty caused by the pandemic.

Governance, transparency, and value for money

- 7 Arrangements have been adapted to reflect the impact of the Covid 19 pandemic. We have considered these measures and have concluded that sportscotland has appropriate and effective governance
- 8 sportscotland has an appropriate and effective performance management framework in place which supports the achievement of Best Value.
- 9 The business activities of sportscotland were significantly impacted by the pandemic. sportscotland has responded by refocussing priorities to best support the recovery of the sporting system.

Introduction

1. This report summarises the findings from our 2020/21 audit of the sportscotland Group and the Lottery Fund.
2. The scope of our audit was set out in our Annual Audit Plan presented to the 24 February 2021 meeting of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of the sportscotland Group and Lottery Fund annual report and accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The main elements of our audit work in 2020/21 have been:
 - an audit of the sportscotland Group and the Lottery Fund's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - a review of the sportscotland Group and the Lottery Fund's key financial systems
 - consideration of the four audit dimensions.
4. The global coronavirus pandemic has had a considerable impact on sportscotland Group during 2020/21. This has had significant implications for the services it delivers as sport across Scotland has been impacted by travel restrictions and the closure of sporting venues, leisure centre and schools. Risks related to the pandemic were included in our Annual Audit Plan, and we have adapted our planned audit work to address any new emerging risks.

Adding value through the audit

5. We add value to the sportscotland Group and the Lottery Fund 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 and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

- 6.** sportscotland Group and the Lottery Fund 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 the Scottish Ministers.
- 7.** sportscotland Group and the Lottery Fund is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.
- 8.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position, and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
- 9.** This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
- 10.** Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

- 11.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.
- 12.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £48,940 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
- 13.** This report is addressed to both sportscotland Group and the Lottery Fund and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.
- 14.** We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

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

Main judgements

Our audit opinions on the annual report and accounts are unmodified

The financial statements of sportscotland Group and Lottery Fund give a true and fair view of the state of affairs of these bodies as at 31 March 2021 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.

Our audit opinions on the annual report and accounts are unmodified

15. The annual report and accounts for the year ended 31 March 2021 were approved by the board on 27 October 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 were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The Covid-19 pandemic had a limited impact on audit evidence

16. Due to the on-going restrictions arising from the Covid-19 outbreak Audit Scotland and sportscotland staff have continued to work from home, adapting our 'normal' approach and learning from the experiences of 2019/20.

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

18. In accordance with the WGA guidance, we will complete the required assurance statement and submit to the National Audit Office (NAO). We are currently awaiting notification of the revised deadline for this year.

Overall materiality is £378,000

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

Exhibit 1 Materiality values

Materiality level	Group Planning	Group Revised	Lottery Fund Planning	Lottery Fund Revised
Overall materiality	£432,000	£378,000	£200,000	£237,000
Performance materiality	£260,000	£189,000	£120,000	£142,000
Reporting threshold	£10,000	£10,000	£5,000	£5,000

Source: sportscotland Group and Lottery Fund Annual Audit Plan 2020/21

[Appendix 2](#) identifies the main risks of material misstatement and our audit work to address these

20. [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 indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

We have significant findings to report on the annual report and accounts

21. 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. We have reported a number of issues from the work done on the identified risks of material misstatement. These are included in the action plan at [Appendix 1](#).

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

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Revaluation Loss</p> <p>The loss on revaluation of Caledonia House was double counted. It had been included within Other operating charges in the Statement of Comprehensive Net Expenditure (SOCNE) in addition to being disclosed as a Loss on revaluation of assets.</p>	<p>This has been amended in the audited accounts by removing £190k from the Other operating charges line in the SOCNE.</p>
<p>2. Untaken Holiday Leave</p> <p>The holiday pay accrual of £454k was understated due to the omission of salary on-costs of £63k. This resulted in an understatement of accruals in the Statement of Financial Position (SOFP) and expenditure in the SOCNE, both by £63k.</p>	<p>The audited accounts have been amended by increasing both staff costs in the SOCNE and accruals in the SOFP by £63k.</p>
<p>3. Personal Protective Equipment (PPE)</p> <p>Some PPE was provided free of charge to sportscotland by NHS National Services Scotland (NHS NSS). Pursuant to guidance issued by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC), all PPE consumed by sportscotland should have been accounted for as donated inventory but had not been recognised in the financial statements.</p>	<p>This has been amended in the financial statements by recognising expenditure of £68k, and matching income. This has had a nil net effect on the bottom line of the SOCNE.</p>
<p>3. FAR and depreciation</p> <p>When reviewing the depreciation charges on equipment, we noted two assets had been incorrectly depreciated over 3 years rather than 4 years as required by sportscotland's depreciation policy. This resulted in the depreciation charge for the year being overstated by £16k, and non-current assets being understated by the same.</p>	<p>The depreciation total has been amended in the audited accounts, by decreasing expenditure by £16k in the SOCNE and increasing Property, plant and equipment by £16k in the SOFP.</p> <p>The FAR for both sportscotland the Lottery Fund should be kept up to date and checked for accuracy on a regular basis by, for example, reconciling the FAR to the general ledger.</p> <p>Recommendation 1 (refer Appendix 1, action plan)</p>
<p>3. Lottery Fund Related Party transactions – Awards for All</p> <p>An Awards for All invoice for Q4 20/21 with a value of £160k was not received until late April and was not included in the draft Lottery Fund accounts. It</p>	<p>This has been amended in the audited accounts by recognising an additional £160k in both expenditure (grants paid and committed during the year) in the SOCNE, and Trade and other payables in the Statement of Financial Position.</p>

Issue	Resolution
should have been recognised within expenditure and accruals.	

Source: Audit Scotland

Identified misstatements of £337k in the sportscotland Group accounts and £160k in the Lottery Fund accounts were adjusted in the accounts. In both cases these were more than our performance materiality but arose from issues that have been isolated and identified in their entirety.

23. Total misstatements identified were £337k in the sportscotland Group accounts and £160k in the Lottery Fund accounts.

24. We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. We therefore did not consider it necessary to revise our audit approach.

25. Adjustments made in the audited sportscotland Group accounts decreased net expenditure in the Statement of Comprehensive Net Expenditure by £143k and decreased net assets in the Statement of Financial Position by £63k.

26. Adjustments made in the audited sportscotland Lottery Fund accounts increased net expenditure in the Statement of Comprehensive Net Expenditure by £160k and decrease net assets in the Statement of Financial Position by £160k.

27. 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. There are no unadjusted errors to report.

Year-end closedown procedures

28. The closure of the year-end accounts is a complex process which requires a significant amount of information to be collected, collated, and presented. To support this task staff throughout the organisation should have a clear understanding of their roles, the information needed, and the timescales involved. We note that sportscotland has not documented its closedown procedures. This creates a risk that the annual closedown process may not be fully understood by relevant staff leading to inefficiencies in the accounts preparation process.

Recommendation 2

sportscotland should ensure that year-end closedown procedures are documented and communicated to staff prior to the year-end.

Good progress was made on prior year recommendations

29. The body has made good, in implementing 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

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

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

Systems of internal control were assessed as operating appropriately and effectively.

Sportscotland Group within budget in 2020/21 and has a year-end net asset position of £12.7 million.

30. The main financial objective for sportscotland Group is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. For sportscotland Lottery Fund the main objective is that the payment of awards and associated administrative costs are within the amounts called down from the National Lottery Distribution Fund (NLDF).

31. sportscotland Group has reported an outturn of £34.6 million remaining within its overall budget for 2020/21 with an underspend of £4.0 million. Agreement was received from the Scottish Government to carry forward capital funding which was provided to assist with infrastructure cycling projects across Scotland (£1.0 million) and the Murray Legacy Facility at Park of Keir (3.0 million). The financial performance is shown in [Exhibit 3](#).

Exhibit 3**Performance against funding targets in 2020/21**

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	31.600	34.600	34.600	-
Capital	0	4.000	0.000	(4.000)
Non-cash	1.050	0.720	0.720	-
Total	32.650	39.320	35.320	(4.00)

Source: sportscotland Group Annual Report and Accounts 2020/21

32. This grant-in-aid income was supplemented by other income of £2.8 million including £1.5 million from SSCTC and £1.3 million from other operating income such as high performance and rental income.

33. The financial statements show that sportscotland Group has net assets of £12.7 million, a decrease of £8.6 million, largely attributable to an increase in the pension liability of £13.7 million.

sportscotland Lottery Fund reported an increase in fund of £5.7 million for 2020/21 and has a year-end net asset value of £48.4 million

34. sportscotland Lottery Fund has reported an expenditure outturn of £23.7 million (2019/20: £20 million) and income of £29.4 million (2020/21: £29 million), therefore showing an increase in fund of £5.7 million against a prior year decrease in fund of £9 million.

35. The financial statements show that sportscotland Lottery fund has net assets of £48.4 million, an increase of £5.7 million due to the increase in fund noted above, the balance held by NLDF has increased by £3.5 million in year.

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

36. From our review of budget monitoring reports and committee papers we confirmed that, during 2020/21, senior management and members received regular, timely and up to date financial information to enable them to make decisions.

37. In response to the impact of Covid-19 on sport in Scotland sportscotland reviewed their grant commitments and reprioritised their spending plans. A revised 2020/21 budget was approved by the Board in June 2020. Further revision has taken place and a budget for 2021/22 was presented to the Board in April 2021.

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

Financial systems of internal control are operating effectively

39. As part of our audit we seek to obtain an understanding of the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to confirm that the control environment that supports the preparation of the financial statements is sound.

40. At the end of March 2020 sportscotland, along with most of the public sector, moved to a homeworking environment. Discussions with finance staff have confirmed that some control arrangements have been adapted to reflect the current restrictions. In particular the use of an electronic approach to ensure authorisation and segregation of duties. Our audit testing identified a small number of cases where these processes had not been clearly evidenced.

Recommendation 3

sportscotland should remind staff of the need to clearly evidence the segregation of duties and authorisation of electronic checks

3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

The Covid-19 outbreak has had a significant impact on the sporting system. sportscotland adapted its medium-term financial plan to recognise the uncertainty caused by the pandemic.

sportscotland has responded well to the short-term challenges should now return to a medium-term financial plan to the support recovery of the sporting system.

sportscotland adapted its medium-term financial plan to recognise the uncertainty caused by the pandemic

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

42. The sporting system has been massively affected by the COVID-19 pandemic and the financial impact of the pandemic on sportscotland is likely to extend across several years. In April 2020 sportscotland responded to the pandemic with a short-term action plan to support the sporting system to recover from the current restrictions and a revised 2020/21 budget was reapproved by the Board in June 2020.

sportscotland has responded well to the short-term challenges but should return to a medium-term financial plan to support the recovery of the sporting system

43. As the pandemic eases sportscotland is now looking towards the sporting future and helping the system recover. A revised [business plan for 2021 onwards](#) and budget for 2021/22 were presented to the Board in April 2021.

44. Sportscotland has responded well despite the significant impact of the pandemic on the sporting system. The path out of the pandemic is becoming clearer but recovery will take time. Following the May 2021 elections, the new Scottish Government's intentions for sport are known. With increased investment in sport and population health planned sportscotland has a significant role to play in supporting delivery the Government's aims.

Recommendation 4

sportscotland should now look to the future and build a medium-term financial strategy that will help it to support system recovery and the delivery of the new Scottish Government's aims.

4. Governance and transparency

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

Main judgements

Arrangements have been adapted to reflect the impact of the Covid-19 pandemic. We have considered these measures and have concluded that sportscotland has appropriate and effective governance

The governance arrangements and controls operating throughout the Covid19 pandemic have been appropriate

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

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

46. The impact of Covid-19 from March 2020 has been set out in the Governance Statement in the body's annual report and accounts. We reported in last year's annual report on the revised governance arrangements introduced by sportscotland including moving staff to a home working environment and putting technology solutions in place to ensure that Board and committee meetings could go ahead virtually with minimal impact on decision making and scrutiny.

47. sportscotland continues to have adequate arrangements in place which support good governance and accountability, and which provide an appropriate framework for organisational decision making.

The performance report was of a good standard

48. In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of sportscotland's performance report. The performance report should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced, and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

49. The periods of lockdown, restrictions on travel, and the closure of sporting venues, leisure centres and schools had a significant impact on the business activities of sportscotland and the many organisations and communities it supports.

50. The introduction of the short-term business plan prioritising the response to this impact and meant that, as priorities changed, existing performance measures were no longer appropriate. To demonstrate performance against the new priorities sportscotland introduced a revised performance measurement framework.

51. Building on the work done previously the Performance Report utilises a mixture of narrative and infographics to provide users of the accounts with a clear understanding of the progress against the new priorities and how sportscotland is helping Scotland's sports system to recover from the pandemic.

5. Value for money

Using resources effectively and continually improving services

Main judgements

sportscotland has an appropriate and effective performance management framework in place which supports the achievement of Best Value.

The business activities of sportscotland were significantly impacted by the pandemic. sportscotland has responded by refocussing priorities to best support the recovery of the sporting system.

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

52. [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.

53. Recognising the disruption caused by the Covid-19 outbreak and the significant impact it had on the sporting system, sportscotland set aside its [2019-21 business plan](#) in August 2020 and replaced it with a [short-term action plan](#) designed in response to the Covid-19 environment. The short-term plan aimed to drive the work of sportscotland and support the development of the next business plan through recognising the impact of Covid-19 on.

54. Key activities and actions and budgets have been reviewed to ensure that they support the new priorities. A revised [business plan for 2021 onwards](#) reflecting how sportscotland will deliver its commitment to the corporate strategy, Sport For Life, while supporting the sporting system to recover from the Covid-19 pandemic was presented to the Board in April 2021.

55. The new Framework temporarily moves away from reporting sportscotland's contribution to the Active Scotland Outcomes Framework (ASOF). Instead, this reports progress against the strategic priorities in the short-term action plan and highlights the impact of collaborative work with partners across the system in the last year.

56. Reporting to, and scrutiny via, the sportscotland Board and the Audit and Risk Committee have remained in place as both moved to virtual meetings. A core part of our audit process is to attend Audit and Risk Committee meetings.

National performance audit reports

57. 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 3](#).

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Fixed asset register</p> <p>When reviewing the depreciation charges on equipment, we noted two assets had been incorrectly depreciated over 3 years rather than 4 years as required by sportscotland's depreciation policy. This resulted in the depreciation charge for the year being overstated by £16k, and non-current assets being understated by the same.</p> <p>Risk – the accounts may not accurately reflect the value and usage of assets. .</p>	<p>The FAR for both sportscotland the Lottery Fund should be kept up to date and checked for accuracy on a regular basis by, for example, reconciling the FAR to the general ledger.</p> <p>Paragraph 22.</p>	<p>We will look to introduce quarterly reviews and reconciliations of the FAR to ensure that depreciation is charged to the correct year and for the correct length of time.</p> <p>Simon Taaffe 31 October 2021</p>
<p>2. Year-end closedown procedures</p> <p>We note that sportscotland has not documented the closedown procedures.</p> <p>Risk – the annual closedown process may not be fully understood by relevant staff leading to inefficiencies in the accounts preparation process.</p>	<p>sportscotland should ensure that year-end closedown procedures are documented and communicated to staff prior to the year-end.</p> <p>Paragraph 28.</p>	<p>We will prepare a draft closedown procedure which will be tested and finalised through the 2021-22 closedown procedure.</p> <p>Simon Taaffe 31 January 2022</p>
<p>3. Evidencing of electronic checks</p> <p>At the end of March 2020 sportscotland, along with most of the public sector, moved to a homeworking</p>	<p>sportscotland should remind staff of the need to clearly evidence the segregation of duties and authorisation of electronic checks.</p>	<p>Agreed. We have made significant changes to reduce physical approvals and move to electronic approvals during the pandemic period, but this still relies on staff following</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>environment. Discussions with finance staff have confirmed that some control arrangements have been adapted to reflect the current restrictions. In particular the use of an electronic approach to ensure authorisation and segregation of duties. Our audit testing identified a small number of cases where these processes had not been clearly evidenced.</p> <p>Risk – transactions may be processed unchecked leading to increased risk of error or irregularity.</p>	<p>Paragraph 40.</p>	<p>the revised electronic procedures. We will remind Finance staff of the need for extra vigilance around checking that electronic approvals have been made and ensure that any issues around evidencing approvals are followed up with staff to minimise the risk of errors or repeat occurrences.</p> <p>Simon Taaffe 1 October 2021</p>
<p>4. Medium-term financial planning</p> <p>Sportscotland has responded well despite the significant impact of the pandemic on the sporting system. The path out of the pandemic is becoming clearer but recovery will take time. Following the May 2021 elections, the new Scottish Government’s intentions for sport are known. With increased investment in sport and population health planned sportscotland has a significant role to play in supporting delivery the Government’s aims.</p> <p>Risk – there is a risk that the recovery and development of the sporting system in Scotland may not be financially sustainable.</p>	<p>sportscotland should now look to the future and build a medium-term financial strategy that will help it to support system recovery and the delivery of the new Scottish Government’s aims.</p> <p>Paragraph 44.</p>	<p>The combination of the restart of sport post pandemic and the potential expansion of the Scottish Government Sport budget provides a catalyst for reviewing the medium-term financial strategy for sportscotland. We will revisit our medium-term financial plans and ensure that any expansion of our budget is sustainable and focused on the key priorities for the Scottish Government and sportscotland. This will form a key part of our budgeting process for 2022-23, leading to a first draft 2022-23 budget for the February 2022 Board.</p> <p>Neville Cobb 28 February 2022</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>5. Remuneration and staff report</p> <p>The audit process identified several required changes to the remuneration and staff report to ensure it accurately reflected the underlying supporting documentation.</p> <p>There is a risk that remuneration disclosures are incorrect.</p>	<p>There were some minor changes required to the 20/21 remuneration and staff report, but fewer than in the prior year.</p> <p>We recognise that the current restrictions and working from home arrangements may have impacted on the normal internal review arrangements. These are an important aspect of the preparation of the annual report and accounts and should always be sufficiently robust to identify potential errors.</p>	<p>Complete.</p>
<p>6. Medium term financial planning</p> <p>The current response to the impact of the COVID-19 pandemic has focused on short term actions and now sportscotland must look further ahead to determine the best way to support the recovery of the wider sporting system.</p> <p>There is a risk to the financial sustainability of the sporting system in Scotland.</p>	<p>The sporting system has been massively affected by the COVID-19 pandemic and sportscotland should build on the short-term financial impact to revise the medium-term financial planning.</p>	<p>The combination of the restart of sport post pandemic and the potential expansion of the Scottish Government Sport budget provides a catalyst for reviewing the medium-term financial strategy for sportscotland. We will revisit our medium-term financial plans and ensure that any expansion of our budget is sustainable and focused on the key priorities for the Scottish Government and sportscotland. This will form a key part of our budgeting process for 2022-23, leading to a first draft 2022-23 budget for the February 2022 Board.</p>
<p>7. Openness and transparency</p> <p>Openness and transparency Board and other committee meetings are held in private, however Board minutes should be published on the website. From a review of the website this has not being</p>	<p>Given the current restrictions in place, with limited activity at the national performance centres and much of the sporting system still closed, sportscotland should review how the website and other virtual engagement can support their desire to</p>	<p>Complete</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>maintained with the most recent available minutes dated 30 October 2019.</p> <p>There is a risk that stakeholders are unable to access relevant information leading to concerns about the transparency of decisions. –</p>	<p>conduct business in an open and transparent way.</p>	

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Risks of material misstatement 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>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates • Focused testing of accruals and prepayments • Identification and evaluation of significant transactions that are outside the normal course of business. 	<p>Results: Our audit testing did not uncover any significant issues. There were no significant transactions outside the normal course of business.</p> <p>Conclusion: No issues were identified that indicate management override of controls</p>
<p>2. Risk of material misstatement caused by fraud in income recognition.</p> <p>As set out in ISA (UK)240, there is a presumed risk of fraud in the recognition of income. sportscotland Group and Lottery Fund receive a significant amount of income in addition to Scottish Government funding. The extent and complexity of income, including the new income stream resultant from the furlough scheme means</p>	<p>Component assurances covering Trust income, including any receipts under the furlough scheme.</p> <ul style="list-style-type: none"> • Carry out analytical procedures on income streams, other than funding from Scottish Government, to identify areas of risk and to direct our testing. • Detailed testing of revenue transactions • Substantive cut-off testing of income to ensure that has 	<p>Results: We did not identify any significant issues from our testing of income streams.</p> <p>Conclusion: No fraud issues were identified.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>that there is an inherent risk of fraud.</p> <p>There is a risk to the financial sustainability of the sporting system in Scotland.</p>	<p>been recognised in the correct financial year.</p>	
<p>3. Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. sportscotland Group and Lottery Fund incur significant expenditure on the award of grants and therefore there is an inherent risk of fraud over expenditure.</p>	<p>Component assurances covering Trust expenditure</p> <ul style="list-style-type: none"> • Carry out analytical procedures on expenditure streams to identify areas of risk and to direct our testing • Detailed testing of grant expenditure to ensure all conditions have been met prior to payments being made. • Substantive cut-off testing of expenditure to ensure that it has been recognised in the correct financial year. 	<p>Results: We did not identify any significant issues from our testing of expenditure.</p> <p>Conclusion: No fraud issues were identified</p>
<p>4. Estimations and judgements</p> <p>Due to the ongoing Covid-19 pandemic, a number of uncertainties have been identified over the valuation of pension liabilities and property. Property valuers highlighted in 2019/20 that, as a result of the uncertain market and financial conditions surrounding the pandemic, their valuation now carries a higher degree of subjectivity than would apply in normal circumstances. For pension valuations, although no additional uncertainty was highlighted the valuation will need to be monitored in 20/21 to assess whether the fluctuation in value is material.</p> <p>Given the nature of these valuations, the application of estimation and judgement over these areas poses a risk</p>	<p>We will review the reports provided by management's experts after the year-end and consider their contents as part of our audit of the annual accounts.</p>	<p>Results: Estimations and judgements within the accounts were based on the most recent information.</p> <p>Conclusion: No issues were identified.</p>

Audit risk	Assurance procedure	Results and conclusions
of material misstatement for 20/21.		

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>sportscotland Group and Lottery Fund continue to face uncertainty over funding, partially due to the unpredictable nature of the performance of the Lottery Fund, as well as the unknown long-term impact of the ongoing Covid-19 pandemic.</p> <p>Although a break-even position is forecast for 2020/21, it is noted that a Going Concern uncertainty was disclosed in the 2019/20 Trust Company accounts and there is a risk that financial balance across the group may not be achievable in the medium to long term.</p>	<p>Review and assess the adequacy and robustness of medium to long-term financial plans, as well as the short-term action plan issued to respond to the Covid-19 pandemic.</p>	<p>Results: 2020/21 proved to be a good year for Lottery Fund income and projections for 2021/22 are good. There were no Going Concern issues raised in respect of the Trust Company this year.</p> <p>Conclusion: sportscotland has reviewed its financial plans in the short-term. The impact of the pandemic is ongoing, and we will continue to assess this as part of the 2021/22 audit process.</p>
<p>6. Governance and transparency – financial regulations and workforce planning</p> <p>sportscotland has sound governance arrangements in place, however we have identified slippage in review of governance documentation including financial regulations and workforce planning.</p> <p>sportscotland does not have a Workforce Plan. There is a risk that without effective and up-to-date workforce planning, the organisation does not efficiently manage its staffing needs, or that it will be under-prepared to</p>	<p>Continue to liaise with senior management about the status of the codification of financial regulations.</p> <ul style="list-style-type: none"> • Review progress of the workforce planning process and establish what arrangements would currently be considered in the event of any organisational restructure 	<p>Results: There has been little progress in 2020/21 in producing financial regulations or a workforce plan, although a People Strategy has now been approved by the Audit and Risk Committee.</p> <p>Conclusion: We will continue to assess this as part of the 2021/22 audit process.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>respond to changing needs or demands or conduct any restructuring should it be required.</p>		
<p>7. Governance and transparency – changing working environment due to Covid-19</p> <p>Due to the Covid-19 pandemic, sportscotland moved to remote working in March 2020 with short notice, and there is a risk that this has resulted in changes to the control environment.</p>	<p>Carry out walkthrough testing during the interim audit to confirm whether there have been any changes which weaken the key controls.</p> <ul style="list-style-type: none"> • Where any weakened controls are identified, we will increase sample sizes for substantive testing. 	<p>Results: Overall, the board has improved and strengthened its financial management arrangements.</p> <p>Conclusion: The board should continue to address the issues and risks highlighted by Internal Audit in their review of financial planning.</p>

Appendix 3. 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](#)

sportscotland Group and Lottery Fund

2020/21 Annual Audit Report

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