



# Creative Scotland and Creative Scotland National Lottery Distribution Fund

2016/17 Annual Audit Report

 AUDIT SCOTLAND

Prepared for Creative Scotland and Creative Scotland National Lottery Distribution Fund and the Auditor  
General for Scotland  
October 2017

## Who we are

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

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



## About us

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

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

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

# Contents

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Key messages	4
Introduction	5
Part 1 Audit of 2016/17 financial statements	7
Part 2 Financial management	10
Part 3 Financial sustainability	14
Part 4 Governance and transparency	16
Part 5 Value for money	18
Appendix 1 Action plan 2016/17	20
Appendix 2 Significant audit risks identified during planning	23
Appendix 3 Summary of national performance reports 2016/17	25

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# Key messages

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## Audit of the 2016/17 financial statements

- 1 The financial statements of Creative Scotland and Creative Scotland National Lottery Distribution Fund give a true and fair view of the financial position and their expenditure and income.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
- 3 The other information in the annual report and accounts was consistent with the financial statements and prepared in accordance with legal requirements.

## Financial management

- 4 Creative Scotland and Creative Scotland National Lottery Distribution Fund have effective arrangements in place for financial management.
- 5 No significant internal control weaknesses were identified during our audit.
- 6 Creative Scotland participated in the National Fraud Initiative exercise and investigated all recommended matches.

## Financial sustainability

- 7 Creative Scotland has adequate financial planning arrangements in place.

## Governance and transparency

- 8 Creative Scotland and Creative Scotland National Lottery Distribution Fund have effective governance arrangements in place.
- 9 Effective scrutiny arrangements are in place and there is effective challenge to ensure effective decision making.

## Value for money

- 10 Creative Scotland regularly monitors and reports on performance to members. Further improvements are required to develop performance indicators which demonstrate progress against corporate ambitions.

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# Introduction

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1. This report is a summary of our findings arising from the 2016/17 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 presented to the February 2017 meeting of the Audit and Risk Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the wider dimensions set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1

### Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 have been:

- an interim review of the Creative Scotland and Creative Scotland National Lottery Distribution Fund's main financial systems and governance arrangements
- an audit of the Creative Scotland and Creative Scotland National Lottery Distribution Fund's 2016/17 annual report and accounts including the issue of independent auditor's reports setting out our opinions.

**4.** Under the Accounts Direction issued by Scottish Ministers, Creative Scotland is responsible for preparing financial statements that give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the year end. Creative Scotland is also required to prepare financial statements in respect of its National Lottery distribution activities under Directions issued in pursuance of Section 35 of Part 11 of the National Lottery etc. Act 1993.

**5.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance and, guided by the auditing profession's ethical guidance.

**6.** These responsibilities include giving independent opinions on the financial statements, regularity, the remuneration and staff report, the performance report and the governance statement. We also review and report on the arrangements within Creative Scotland and Creative Scotland National Lottery Distribution Fund to manage their performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

**7.** 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.** The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1](#) (page 20). It sets out specific recommendations, responsible officers and dates for implementation.

**9.** Communication in this report of matters arising from the audit of the annual report and accounts or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

**10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audits was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

**11.** This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2016/17 financial statements



### Main judgements

The financial statements of Creative Scotland and Creative Scotland National Lottery Distribution Fund for 2016/17 give a true and fair view of the state of the bodies' affairs and of their net expenditure for the year.

We provided an unqualified opinion on the regularity of Creative Scotland and Creative Scotland National Lottery Distribution Fund's expenditure and income and on the remuneration and staff report, performance report and governance statement.

### Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the board on 06/10/17. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity of expenditure and income; and
- an unqualified audit opinion on the remuneration and staff report, performance report and governance statement.

14. Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

### Submission of annual report and accounts for audit

15. We received the unaudited financial statements on 26/06/17, in line with our agreed audit timetable. The draft account statements and notes submitted were substantially complete, apart from the Chief Executive's Report which wasn't received until during the audit process.

16. The working papers provided with the unaudited financial statements were of a high standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Whole of Government Accounts

17. In accordance with the WGA guidance we completed the required assurance statement and will submit this to the National Audit Office (NAO) by the 30 September 2017 deadline. This confirmed that both Creative Scotland and Creative Scotland National Lottery Distribution Fund fall below the threshold for consolidation of a WGA audit.

## Risk of material misstatement

18. We did not identify any material misstatements in the course of our audit.

## Materiality

19. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

20. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audits and is summarised in [Exhibit 2](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

21. On receipt of the annual report and accounts we reviewed our original materiality calculations and amended as below.

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## Exhibit 2

### Materiality values

Materiality level	Creative Scotland	Creative Scotland NLDF
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£482,000.	£299,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we calculated performance materiality at 55% of overall materiality.	£265,000	£165,000
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This was calculated at 5% of overall materiality.	£24,000	£15,000

Source: Audit Scotland

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## Evaluation of misstatements

22. There were no material adjustments to the unaudited financial statements arising from our audit. We did not identify any individual misstatements that exceeded our reporting threshold which required to be amended in the audited financial statements.

## Significant findings from the audit

23. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page XX\)](#) has been included.

## Exhibit 3

### Significant findings from the audit of financial statements

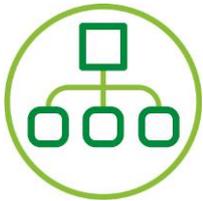
Issue	Resolution
<p><b>1. Financial Policy between Creative Scotland and Creative Scotland National Lottery Distribution Fund.</b></p> <p>Creative Scotland provides support services to Creative Scotland National Lottery Distribution Fund, with all staff being employees of Creative Scotland.</p> <p>Currently there is no financial policy or agreement in place which formally records the services provided, the level of recharge, costs to be apportioned or repayment arrangements.</p>	<p>Creative Scotland will formally document the agreement with Creative Scotland NLDF for the provision and recharging of support services.</p> <p><a href="#">Action Plan (Appendix 1, point 1),</a></p>
<p><b>2. Recharge of costs to Creative Scotland National Lottery Distribution Fund.</b></p> <p>Services provided by Creative Scotland are recharged throughout the year to Creative Scotland National Lottery Distribution Fund. The level of recharge is an estimate based on the analysis of lottery income over several years and takes cognisance of time spent by staff on grant awards. The recharge rate applied in 2016/17 was 40%. This has remained unchanged for a number of years.</p> <p>We reviewed management's basis of apportionment for recharges to the NLDF and consider it appropriate for 2016/17. Given the significant impact that recharges have for both Creative Scotland and Creative Scotland National Lottery Distribution Fund, management should monitor the rate of recharge to ensure that it remains appropriate.</p>	<p>Creative Scotland will review the basis of the calculation of the recharge percentage to ensure it remains accurate and reflects a fair allocation of costs.</p> <p><a href="#">Action Plan (Appendix 1, point 2),</a></p>

### Other findings

**24.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.

# Part 2

## Financial management



### Main judgements

**Creative Scotland and Creative Scotland National Lottery Distribution Fund had effective overall management of the 2016/17 budgets.**

**Systems of internal control operated effectively in 2016/17.**

**Creative Scotland appropriately carried out the requirements of the NFI exercise.**

**Finance team members have appropriate skills, capacity and capability to support Creative Scotland and Creative Scotland National Lottery Distribution Fund.**

### Financial performance in 2016/17

**25.** The main financial objectives for Creative Scotland and Creative Scotland National Lottery Distribution Fund respectively are to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers and that payment of awards and associated administration costs are within the amounts called down from the National Lottery Distribution Fund (NLDF).

**26.** Creative Scotland has reported an expenditure outturn of £44.371 million, which is an overall overspend of £0.002 million against the budget. The financial performance against Departmental Expenditure Limits (DEL) is shown in Exhibit 4.

**27.** Creative Scotland NLDF have reported an expenditure outturn of £28.669m (2015/16: £31.567m); income of £29.580m (2015/16: £34.834m) and a balance drawn down from the National Lottery Development Fund of £29.107m (2015/16 £34.375m). The reduction in income reflects a £5.268m fall in proceeds from the National Lottery Distribution Fund although the accounts show a year end surplus of £911,000.

## Exhibit 4

### Performance against DEL in 2016/17

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	43.708	44.369	44.371	0.002
Capital DEL	0.537	0.537	0.537	0
Total DEL	44.245	44.906	44.908	0.002

Source: 7

### Internal controls

**28.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that Creative Scotland has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**29.** Separate accounting systems are not operated in respect of the activities of Creative Scotland NLDF. Instead Creative Scotland's systems are used to record the transactions of Creative Scotland NLDF. In addition Creative Scotland NLDF does not employ any staff with all staff being employed by Creative Scotland.

**30.** We concluded that the controls were operating 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 so as to result in a material misstatement in the financial statements.

### Budgetary processes

**31.** Internal Audit reported to the Audit & Risk Committee in November 2016 on budgetary controls and reporting. It was concluded that there was a robust process to set budgets, provide budgetary controls reports and report accordingly.

**32.** We have reviewed the work of Internal Audit and concur with their opinion. We have continued to review Creative Scotland's budgetary processes and budget monitoring arrangements to the year end. This has included a review of budget monitoring reports, committee reports and attendance at committees. We confirmed that senior management and members receive regular, timely and up to date financial information on the financial position of both Creative Scotland and Creative Scotland National Lottery Distribution Fund.

**33.** Overall we concluded that Creative Scotland has strong budgetary monitoring and control arrangements that allow both members and officers to carry out effective management of its finances.

### Prevention and detection of fraud and irregularity

**34.** We assessed Creative Scotland's arrangements for the prevention and detection of fraud. Our audit work covered a number of areas such as a review of whistleblowing arrangements and the counter fraud strategy, which is currently being updated for approval by the Audit and Risk Committee in August 2017.

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

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**35.** We concluded that Creative Scotland is proactive in promoting fraud awareness and had appropriate and adequate arrangements in place for fraud detection and prevention during 2016/17.

### National Fraud Initiative

**36.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error. CS and CSNLDF participated in the 2016/17 NFI exercise and submitted the required datasets ([Exhibit 5](#)).summarises the findings.

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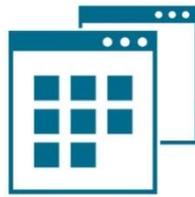
## Exhibit 5

**Total number of matches**



115

**Number recommended for investigation**



14

**Completed/closed investigations**



14

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**37.** A total of 115 matches were identified, with 14 recommended for further consideration. The key contact within Creative Scotland for the NFI exercise reviewed all recommended matches, documented the outcome and closed them timeously. A report to the Audit and Risk Committee on 8 June 2017 confirmed that the review of matches had identified no fraudulent activity.

### Standards of conduct and arrangements for the prevention and detection of bribery and corruption

**38.** We have reviewed the arrangements in place to maintain standards of conduct including the Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

**39.** As a public body, Creative Scotland is required to demonstrate that funding and procurement decisions are not subject to bias and require all staff to complete a Declaration of Interests form.

**40.** Board Members complete a declaration of interests which is available on Creative Scotland's website. All employees of Creative Scotland are required to declare in writing any interests relevant to Creative Scotland's activities, including transactions with related parties. The Audit and Risk Committee reviewed the Staff Declaration of Interests policy which was updated based on current best practice. At the time of our audit approximately 22% of employees had not complied with the requirements and submitted their declaration of interests.

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**Recommendation 3**

**All employees should complete a declaration of interests within the agreed timescale.**

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# Part 3

## Financial sustainability



### Main judgements

**Creative Scotland and Creative Scotland National Lottery Distribution Fund has adequate financial planning arrangements in place based on the Annual Plan.**

**There are no significant concerns about the overall financial position of Creative Scotland and Creative Scotland National Lottery Distribution Fund.**

**Uncertainty over the level of funding and income in future years may lead to challenges to Creative Scotland and Creative Scotland National Lottery Distribution Fund in achieving financial targets and key aims and ambitions**

### Financial planning

**41.** The board of Creative Scotland considered the 2017/18 draft budget in December 2016 and approved the final budget in March 2017.

**42.** Total Grant in Aid for 2017/18 has been agreed at £45.454m (2016/17 £44.482m). National Lottery Income is predicted at £28.071m which is a reduction of £1.036m on income in 16/17 of £29.107m.

**43.** Core Grant in Aid of £32.112m will be used with Lottery Income to support 118 Regularly Funded Organisations in 2017/18. Funding will also be provided for five sector development organisations - Arts & Business, Cultural Enterprise Office, Culture Republic, Creative Carbon Scotland, and the Federation of Scottish Theatre.

### 2016/17 financial position

**44.** The Statement of Financial Position summarises what is owned and owed by a body. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

**45.** The financial statements show the following:

- Creative Scotland has a closing financial position at 31 March 2017 of £1.384m. This compares favourably to the closing negative balance of £5.252m at the end of financial year 2015/16. The improved financial position is mainly due to the significant reduction in grants outstanding at the year end included in trade payables, (£2.620m in 2016/17 compared to £7.841m in 2015/16). Positive steps were taken during the year such as reminding grant recipients of the need to submit the end of project

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

monitoring report in order to release the final 10% of funding and identifying where grant funding was no longer due.

- The value of provisions held by Creative Scotland reduced in 2016/17 to £0.272m (£1.003m in 2015/16). A payment of £816k was made from provisions to settle the deficit on the Arts Council Retirement Plan (1994) pension scheme at 31 March 2017. This was after discussion and approval by the Scottish Government
- The negative reserve of Creative Scotland NLDF has reduced in 2016/17 to £3.701m (£4.612m in 2015/16). Main movements in year end balances include a £1m increase in the value of investments held by the NLDF, a reduction in grants outstanding of £1m and an increase in the year end balance payable to Creative Scotland in respect of the 40% recharge of support costs. The closing balance payable by Creative Scotland NLDF was £1.77m. This amount is exceptionally high and normally amounts payable are settled before the year end. However due to the processing of changes to bank accounts, a higher balance remained payable at 31 March 2017.

## Medium to long term financial planning

**46.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

**47.** Creative Scotland has a 5 year financial plan covering the period 2014-2019. In line with good practice this includes scenario projections showing the impact of varying funding levels. Detailed budget monitoring reports are prepared quarterly for review by the Finance and General Purposes Committee and regular updates are also provided to the Board. The levels of funding from the National Lottery have reduced due to falling lottery sales and there is uncertainty whether income levels will increase to those of previous years. In addition, future reductions in grant in aid are expected. Creative Scotland are well aware of the potential cuts in future funding and are planning ahead by preparing longer term financial plans. Future financial pressures present a significant risk to them.

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### Recommendation 4

**Future reductions in funding pose a significant risk to the continued provision of grants and the achievement of Creative Scotland's key targets and ambitions. It is essential that budgets continue to be closely monitored and performance against financial plans kept under review.**

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# Part 4

## Governance and transparency



### Main judgements

**Creative Scotland and Creative Scotland National Lottery Distribution Fund have effective governance arrangements in place.**

**Creative Scotland and Creative Scotland National Lottery Distribution Fund are open and transparent in the way business is conducted but with some scope for improvement.**

**Internal audit operates in accordance with the Public Sector Internal Audit Standards.**

### Governance arrangements

**48.** We reviewed Creative Scotland's governance arrangements as part of an information gathering exercise for Audit Scotland on the role of boards. Our key findings include:

- Board members provide an appropriate level of scrutiny and challenge of strategic decisions.
- Board members are provided with sufficiently detailed information to support them in their role.
- Board members receive appropriate induction training to allow them to fulfil their role.

**49.** We concluded that Creative Scotland has effective governance, decision making and scrutiny arrangements in place which provide an appropriate framework for organisational decision making.

### The Annual Governance Statement

**50.** Under the Treasury's Financial Reporting Manual (FRM), Creative Scotland and Creative Scotland National Lottery Distribution Fund must prepare an annual governance statement within the Annual Report and Accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

**51.** The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. Assurance certificates on the operation of controls in each directorate are provided by each director annually to the Chief Executive.

**52.** We concluded that the annual governance statements comply with the guidance issued by the Scottish Ministers and based on our knowledge and work

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

performed presents a comprehensive picture of governance arrangements and matters.

## Internal audit

**53.** Internal audit provides Creative Scotland and the Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes.

**54.** The internal audit function is carried out by Henderson Loggie. We carried out a review of the adequacy of the internal audit function and concluded that they operate in accordance with the Public Sector Internal Audit Standards (PSIAS) and have sound documentation standards and reporting procedures in place.

**55.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's work in their review of the Grant Management Systems and as part of our wider dimension audit responsibilities, considered their work on Budgetary Control and Reporting, Performance Management and Strategic and Operational Planning.

## Risk management

**56.** Creative Scotland has a well established approach for managing and reporting risk. The Audit and Risk Committee consider the Risk Register, and any changes, at each of their meetings. In 2016/17 the register was considered in detail by senior management and board members as part of a board workshop. The register was then updated, taking account of new risks identified. The main risks are then considered by the board at each meeting and updated as required.

## Transparency

**57.** Transparency means that the public have access to understandable, relevant and timely information about how the board/equivalent is taking decisions and how it is using resources. There is evidence from a number of sources which demonstrate the board's commitment to transparency.

- Detailed monthly summaries are posted on the website of all funding grants awarded.
- Complaints handling processes are included on the website and provide clear information on the process.
- Minutes of Board meetings are included on Creative Scotland's website.

**58.** Overall, we concluded that the board conducts its business in an open and transparent manner with some scope for further improvement. This refers to the fact that Board meeting agendas and reports are not made available and there are at times delays in the time taken to add minutes to the website.

# Part 5

## Value for money



### Main judgements

**Creative Scotland regularly monitors and reports on performance to members. Further improvements are required to develop performance indicators which demonstrate progress against corporate ambitions.**

### Performance management

**59.** Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may undertake local work in this area.

**60.** Creative Scotland carries out an annual review of its performance and publishes the results on the website. Performance is reported across its five ambitions of:

- Excellence and experimentation across the arts, screen and creative industries is recognised and valued.
- Everyone can access and enjoy artistic and creative experiences.
- Places and quality of life are transformed through imagination, ambition and an understanding of the potential of creativity.
- Ideas are brought to life by a diverse, skilled and connected leadership and workforce.
- Scotland is a distinctive creative nation connected to the world.

**61.** Performance Information for 2016/17 will be published towards the end of the calendar year when the relevant data is available.

**62.** Our review of the 2015/16 Annual Review of Performance report found that in line with good practice, outcomes had been identified for each of the key ambitions and a suite of indicators listed under each ambition. To allow progress to be measured and monitored over time, targets should be set for each of the performance indicators. In addition, further consideration should be given to enhancing the performance information given in the Annual Report and Accounts by making reference to the five key ambitions and progress in achieving target outcomes.

Value for money is concerned with using resources effectively and continually improving services.

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## Recommendation 5

**Targets should be set for the indicators used to measure and report against each of the agreed performance outcomes.**

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### National performance audit reports

**63.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, we published a number of reports which are of direct interest to the board. These are outlined in [Appendix 4](#) accompanying this report.

**64.** National reports are reviewed by the Audit and Risk Committee, in accordance with the agreed terms of reference and the Key Duties of the committee.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	 Issue/risk	 Recommendation	 Agreed management action/timing
9	<p><b>1. Financial Policy between Creative Scotland and Creative Scotland National Lottery Distribution Fund</b></p> <p>Creative Scotland provide services for Creative Scotland National Lottery Distribution Fund, with all staff being employees of Creative Scotland.</p> <p>Currently there is no financial policy or agreement in place which formally documents the services provided, the level of recharges, costs to be apportioned and repayment arrangements.</p> <p>Risk</p> <p>The basis for the recharging of support costs is not transparent and may be difficult to justify.</p>	<p>Creative Scotland should formalise the in writing the arrangements between them and Creative Scotland NLDF for the recharging of support costs.</p>	<p>The recharge methodology applied will be formally documented.</p> <p>Director of Finance December 2017</p>
9	<p><b>2. Recharge of costs to NLDF</b></p> <p>Services provided by Creative Scotland are recharged on a percentage estimate based on lottery income analysis over several years, and applied only to relevant cost centres. The recharge takes cognisance of time spent by staff on grant awards from both funding streams. Currently the level of recharge is 40% which has remained at this level for several years.</p> <p>Given the significant impact</p>	<p>Creative Scotland should review the basis of the calculation of the recharge to ensure the continued accuracy of the level of the recharge.</p>	<p>The recharge calculation will be reviewed using the recharge methodology referred to in 1) above.</p> <p>Director of Finance June 2018 or in-year as appropriate.</p>

Page no.	 Issue/risk	 Recommendation	 Agreed management action/timing
	<p>that recharges have for both Creative Scotland and Creative Scotland National Lottery Distribution Fund, management should continue to monitor this to ensure that it remains appropriate.</p> <p>Risk</p> <p>The rates for recharging costs may not be representative of the actual level of costs incurred by Creative Scotland in carrying out Creative Scotland National Lottery Distribution Fund activities. This could result in inaccuracies in the financial statements.</p>		
13	<p><b>3. Register of Interests</b></p> <p>As a public body, Creative Scotland is required to demonstrate that funding and procurement decisions are not subject to bias and requested that all staff complete a Declaration of Interests form.</p> <p>At the time of our audit only 78% of staff had completed and submitted the declaration.</p> <p>Risk</p> <p>Related party disclosures may be incomplete.</p>	<p>All staff should be reminded of the requirement to complete and submit the disclosure timeously.</p>	<p>The remaining Declaration of Interest forms will be collected from staff.</p> <p>Finance Manager</p> <p>October 2017</p>
15	<p><b>4. Financial Pressures</b></p> <p>Any future cuts in funding from reductions in Grant in Aid or falling lottery sales will pose a significant risk to the future funding of projects and the achievement of Creative Scotland's Annual Plan.</p> <p>Risk</p> <p>Cuts in funding pose a risk to the financial sustainability of Creative Scotland and the delivery of its ambitions and priorities.</p>	<p>Creative Scotland should proactively reviews budgets and monitors both short and long term financial plans and projections</p>	<p>Budgets will be reviewed throughout the year in response to possible in-year income reductions. Longer term financial plans and projections will be reviewed through the annual planning cycle and as required throughout the year.</p> <p>Director of Finance</p> <p>Ongoing</p>
19	<p><b>5. Performance targets</b></p> <p>Outcomes and performance</p>	<p>Targets should be set for each of the measures used to</p>	<p>The 2016/17 annual review will use key performance</p>

Page no.	 Issue/risk	 Recommendation	 Agreed management action/timing
	<p>measures have been identified for each of Creative Scotland's key ambitions. These are clearly set out in the Annual Review of Performance. However targets have not been set for the performance indicators.</p> <p>There is scope for enhancing the performance section of the Annual Report and Accounts by referring more to performance against the corporate outcomes and progress against the key performance indicators.</p> <p>Risk</p> <p>Progress in achieving outcomes and ambitions cannot be effectively monitored and reported.</p>	<p>assess performance against the agreed outcomes and ambitions.</p>	<p>indicators and other supporting evidence to assess performance against agreed outcome and ambitions.</p> <p>Director of Strategy November 2017</p> <p>Key performance indicators for 2017/18 have been amended and will indicate progress against Creative Scotland's strategic outcomes and ambitions.</p> <p>Director of Strategy August 2017</p>

# Appendix 2

## Significant audit risks identified during planning

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. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Detailed testing of grant expenditure and income to ensure it was accounted for in the correct financial year.</p> <p>Review of apportioned costs and accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions which were outside the normal course of business.</p>	<p>No evidence from the testing carried out of management bias or manipulation of the financial statements position.</p>
<p><b>2 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice expands the ISA 240 assumption on fraud over income to aspects of expenditure. CS and CSNLDF incur significant expenditure on the award of grants and we therefore recognise this as a financial statements risk.</p>	<p>Walkthrough of controls over grant approval.</p> <p>Detailed testing of grant expenditure to ensure all conditions had been met prior to payments being made.</p>	<p>Review of the controls over grant approval, and testing of expenditure did not identify any issues of concern.</p>
<p><b>3 Accounting for grants</b></p> <p>The majority of expenditure in both CS and CSNLDF relates to grant awards. There is a degree of subjectivity in the measurement of grants awarded. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Detailed testing of grant expenditure to ensure it has been accounted for in the correct financial year.</p> <p>Focused testing of year end estimates and assumptions.</p>	<p>Testing and review of grant expenditure completed and concluded as satisfactory</p>

Audit Risk	Assurance procedure	Results and conclusions
<b>Financial statement issues and risks for CSNLDF only</b>		
<p><b>4 Risk of fraud over income</b></p> <p>CSNLDF receives approximately £0.6 million of income from sources other than the National Lottery. The extent of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.</p>	<p>Detailed testing of income streams focusing on the areas of greatest risk.</p>	<p>Testing of income streams was carried out and found to be satisfactory.</p>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>5 Financial Sustainability</b></p> <p>CS's grant in aid award for 2016-17 was reduced by 3.6% from £33.412m to £32.312m.</p> <p>Income received from the Lottery Fund has also been lower than projected.</p> <p>In a challenging environment CS should ensure that it has appropriate budget monitoring and long-term financial planning arrangements.</p>	<p>Review of regular Management Accounts and assumptions for CS and CSNLDF.</p> <p>Review of internal audit's work on Budgetary Control and Reporting.</p>	<p>Review of the work and report by Internal Audit in this area as well as the ongoing presentation of Financial Monitoring Reports to the Board.</p> <p>Creative Scotland proactively reviews budgets and monitors both short and long term financial plans and projections.</p>

# Appendix 3

## Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	Superfast broadband for Scotland: a progress update
			Scotland's colleges 2016
Sept		Social work in Scotland	Scotland's new financial powers
Oct		Angus Council: Best Value audit report	NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	i6: a review
			Managing new financial powers: an update

### Central Government relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[Supporting Scotland's economic growth](#) – July 2016

[Superfast broadband for Scotland: a progress update](#) – August 2016

[Scotland's new financial powers](#) – September 2016

[Managing new financial powers: an update](#) – March 2017

# Creative Scotland and Creative Scotland National Lottery Distribution Fund

## 2016/17 Annual Audit Report

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