

sportscotland Group and Lottery Fund

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for sportscotland Group and Lottery Fund

February 2018

Who we are

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

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



About us

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

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

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

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Risks and planned work

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

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

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

Exhibit 1

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</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 consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year.
<p>2 Risk of fraud over income</p> <p>sportscotland Group and Lottery Fund receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> Income is principally received from the Scottish Government monthly draw downs of Grant in Aid and monthly drawdowns from the National Lottery Distribution Fund. 	<ul style="list-style-type: none"> Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk. Component assurances covering Trust income.

Audit Risk	Source of assurance	Planned audit work
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice expands the ISA 240 assumption on fraud over income to aspects of 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>	<ul style="list-style-type: none"> Expenditure is mainly administered through partnership agreements with sport Governing Bodies, Local Authorities and sports organisations which are governed by investment agreements. 	<ul style="list-style-type: none"> Detailed testing of grant expenditure to ensure all conditions have been met prior to payments being made. Reliance on the work of internal audit on facilities investment. Component assurances covering Trust expenditure.
<p>4 Non-current asset accounting for sportscotland Group</p> <p>sportscotland are in the process of implementing a new fixed asset system. Our 2016/17 audit identified a number of issues over the accounting for fixed assets including the lack of asset verification and impairment reviews, and depreciation not being charged in line with accounting policies.</p> <p>There is a risk that the sportscotland Group does not hold accurate records of its assets and that they are misstated in the accounts.</p>	<ul style="list-style-type: none"> Fixed asset details will be input into the Tech Forge fixed asset system by the year end. As part of this process, assets are being reviewed for impairment. The most significant assets that sportscotland holds are its buildings – these were subject to a detailed formal valuation at the end of 2016-17. 	<ul style="list-style-type: none"> Review the process for migration of non current asset data into the new system. Substantive testing of a sample of assets to ensure the asset exists and depreciation has been applied appropriately.
<p>5 Classification of grant commitments</p> <p>Our 2016/17 audit identified the misclassification of grant commitments between hard and soft commitments, as defined by the Direction of Scottish Ministers.</p> <p>There is a risk that grants are incorrectly accounted for resulting in a misstatement in the accounts.</p>	<ul style="list-style-type: none"> Additional management reviews will be carried out this year to reduce the risk of error. The revised audit timetable allows more time for these management reviews. 	<ul style="list-style-type: none"> Detailed testing of grant expenditure to ensure appropriately classified at year end.

Audit Risk	Source of assurance	Planned audit work
Wider dimension risks		
<p>6 Financial sustainability</p> <p>sportscotland Group and Lottery fund continues to face uncertainty over funding with reductions in both Grant in Aid and National Lottery funding in recent years.</p> <p>Although a break even position is forecast for 2017/18 there is a risk that, due to a lack of financial planning, financial balance may not be achievable in the medium to long term.</p>	<ul style="list-style-type: none"> • This risk is recognised in the strategic risk register. • sportscotland has carried out a major budget review this year in order to identify savings opportunities ahead of the formal settlement announcement from Scottish Government in December 2017. • National Lottery spending has been projected out to 2021-22, using DCMS assumptions. • Scottish Government funding continues to be on a one year basis. • Scenario analysis for funding for 2018-19 and beyond was presented to the December 2017 Board by the CEO. 	<ul style="list-style-type: none"> • Review and assess the adequacy and robustness of medium to long-term financial plans. • Reliance on the work of internal audit on financial planning.

Reporting arrangements

4. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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

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

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit & Risk Committee
Annual Audit Report	08 August 2018	22 August 2018
Independent Auditor's Report	08 August 2018	22 August 2018

Audit fee

7. The agreed audit fee for the 2017/18 audits of both the sportscotland Group and the Lottery Fund is £46,220 (2016/17 £45,530). In determining the audit fee we have taken account of the risk exposure, planned management assurances in place and level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited accounts, with a complete working papers package on 29 May 2018.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit & Risk Committee and Accountable Officer

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

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

Appointed auditor

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

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

Audit scope and timing

Financial statements

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

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

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

- whether they give a true and fair view of the state of the Group's / body's affairs as at 31 March 2018 and of its net expenditure for the year then ended
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 FReM; and
- whether they have been prepared in accordance with the requirements of the Royal Charter / National Lottery etc. Act 1993 and directions made thereunder by the Scottish Ministers.

15. The group financial statements include the balances and transactions of sportscotland combined with those of the related Trust Company. Scott-Moncrieff will undertake the audit of the Trust Company for 2017/18. In order to arrive at our opinion on the financial statements of the Group, we will obtain such assurances as are necessary from Scott-Moncrieff on their audit of the Trust Company.

Materiality

16. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report. We calculate materiality at different levels as set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

Exhibit 3

Materiality values

Materiality level	Group	Lottery Fund
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the latest audited accounts for 2017/18.	£385,000	£300,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£192,000	£150,000
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the reporting threshold amount. This has been calculated at 3% of planning materiality.	£10,000	£9,000



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

Timetable

18. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit & Risk Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited accounts with working papers package	29 May 2018
Latest date for final clearance meeting with the Head of Finance and Governance	19 June 2018
Agreement of audited unsigned annual accounts	2 July 2018
Issue of Annual Audit Report including ISA 260 requirements, letter of representation and proposed independent auditor's report	
Independent auditor's report signed	22 August 2018

Internal audit

Adequacy of Internal Audit

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

20. Based on our review of the internal audit function, we are satisfied that the service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation and reporting procedures in place.

Areas of Internal Audit reliance

21. To support our audit opinion on the financial statements we plan to place formal reliance on internal audit's review of Facilities Investments.

22. In respect of our wider dimension audit responsibilities we also plan to consider internal audit's work on Financial Planning and the General Data Protection Regulation.

Audit dimensions

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

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

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

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term

- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

25. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively including:

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

Governance and transparency

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

- whether sportscotland can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

Value for money

27. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether sportscotland can provide evidence that it is demonstrating value for money in the use of its resources, has a focus on improvement and that there is a clear link to the outcomes delivered.

Independence and objectivity

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

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

Quality control

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

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

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

Adding Value

33. Through our audit work we aim to add value to the Audited Body. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the sportscotland Group and Lottery Fund has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

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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