

# Creative Scotland and Creative Scotland National Lottery Distribution Fund

2017/18 Annual Audit Report



 AUDIT SCOTLAND

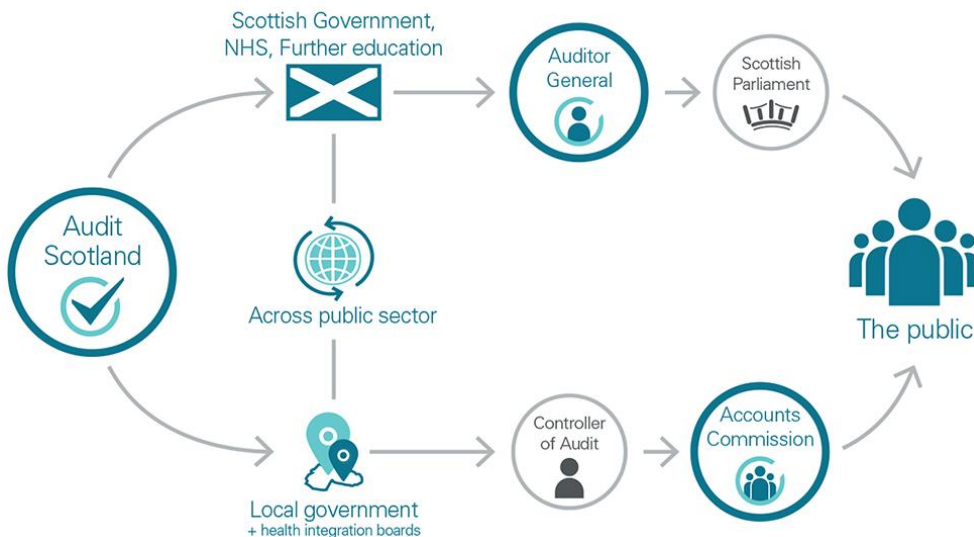
Prepared for Creative Scotland and Creative Scotland National Lottery Distribution Fund and the Auditor  
General for Scotland

23 October 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.

# Contents

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Key messages	4
Introduction	5
Part 1 Audit of 2017/18 annual report and accounts	7
Part 2 Financial management	11
Part 3 Financial sustainability	13
Part 4 Governance and transparency	16
Part 5 Value for money	21
Appendix 1 Action plan 2017/18	23
Appendix 2 Significant audit risks identified during planning	28
Appendix 3 Summary of national performance reports 2017/18	31

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# Key messages

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## 2017/18 annual report and accounts

- 1 In our opinion 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 audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements. There is scope to improve reporting of performance to fully comply with the Financial Reporting Manual.

## Financial management

- 3 Creative Scotland and Creative Scotland National Lottery Distribution Fund have effective arrangements in place for financial management.
- 4 No significant internal control weaknesses were identified during our audit but there is some scope to improve implementation of Internal Audit recommendations.

## Financial sustainability

- 5 We concluded that Creative Scotland has adequate financial planning arrangements in place.
- 6 Creative Scotland should continue to monitor funding allocations and consider the most efficient and effective ways to deliver its objectives and priorities with potentially decreasing resources.

## Governance and transparency

- 7 Creative Scotland and Creative Scotland National Lottery Distribution Fund have effective governance structures in place to enable scrutiny of decisions.
- 8 Recommendations from the independent Regular Funding review should be implemented to improve governance in relation to approval of funding decisions.
- 9 Creative Scotland has arrangements in place to demonstrate transparency but there is scope for improvement.

## Value for money

- 10 Creative Scotland regularly monitors and reports performance to members.
- 11 Creative Scotland should identify performance indicators for which meaningful targets can be set and against which performance can be assessed.

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# Introduction

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1. This report summarises the findings from our 2017/18 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 March 2018 meeting of the Audit & Risk Committee. This report comprises the findings from:

- an audit of the 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](#) 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 2017/18 have been:

- a review of Creative Scotland's main financial systems
- an audit of Creative Scotland and Creative Scotland National Lottery Distribution Fund annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

4. Creative Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts

that are in accordance with the accounts direction from the Scottish Ministers. 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. The annual report and accounts include the following:

- Performance Report
- Accountability Report (which includes the Corporate Governance Report and Remuneration and staff report)
- Financial statements and supporting notes.

**5.** Creative Scotland is also responsible for establishing effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

**6.** Our responsibilities as independent auditor are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

**7.** As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**8.** This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to their attention during our normal audit work, and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**9.** Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

**10.** 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 2017/18 audit fees of £44,470 for Creative Scotland and £22,970 for Creative Scotland National Lottery Distribution Fund as set out in our Annual Audit Plan remain unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

**11.** Our aim is to add value to Creative Scotland by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

**12.** 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) in due course.

**13.** 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 2017/18 annual report and accounts



### Main judgements

**The financial statements of Creative Scotland and Creative Scotland National Lottery Distribution Fund for 2017/18 give a true and fair view of the state of the bodies affairs and of their net expenditure for the year.**

**The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements. There is scope to improve reporting of performance to fully comply with the Financial Reporting Manual.**

### Audit opinions on the annual report and accounts

**14.** The annual report and accounts for the year ended 31 March 2018 were approved by the board on 12 October 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- 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.

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.

**15.** Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

### Submission of annual report and accounts for audit

**16.** We received the unaudited financial statements on 28 June 2018 in line with our agreed audit timetable.

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

### Whole of Government Accounts

**18.** In accordance with the WGA guidance we will complete the required assurance statement and submit it to the National Audit Office (NAO) by the 30 September 2018 deadline. This will confirm 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

19. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

## Materiality

20. Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

21. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. On receipt of the annual report and accounts we reviewed our materiality calculations and amended them as set out at [Exhibit 2](#).

22. Specifically, regarding the annual report and accounts we assess the materiality of uncorrected misstatements, both individually and collectively.

## Exhibit 2

### Materiality values

Materiality level	Creative Scotland	National Lottery Distribution Fund
Overall materiality	£0.498 million	£0.29 million
Performance materiality	£0.298 million	£0.174million
Reporting threshold	£25 thousand	£15 thousand

## How we evaluate misstatements

23. It is our responsibility to request that all misstatements other than those below the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

24. There were no material adjustments to the unaudited financial statements arising from our audit. We identified a very late adjustment to the accounts relating to the pension fund asset valuation received from Hymans Robertson which was based on an estimated figure of £20,320m at 31 March 2018. The final valuation within Strathclyde Pension Fund Accounts for fund assets is £20,800m. The estimated impact of this for Creative Scotland is that the pension liabilities figure is overstated by £0.188m and the assets less liabilities figure being understated by the same amount. Due to the lateness of this emerging issue this is being treated as an unadjusted error in the accounts.

## Significant findings from the audit in accordance with ISA 260

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. 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](#) has been included.


**26.** These findings include our views about significant qualitative aspects of Creative Scotland's accounting practices including:

- Accounting policies
- Significant financial statements disclosures
- The impact on the financial statements of any uncertainties
- Misstatements in the annual report and accounts
- Accounting estimates and judgements
- Timing of transactions and the period in which they are recorded
- The effect of any unusual transactions on the financial statements
- Disagreement over any accounting treatment or financial statements disclosure

## Exhibit 3

### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Remuneration disclosures</b></p> <p>We identified several adjustments to the remuneration of Senior Leadership Team members. This included amendment to salary disclosures to correctly report remuneration for the Acting Director, Screen.</p> <p>Further amendments related to the methodology by which salary to be disclosed was calculated by officers.</p>	<p>Agreement was reached with officers on the appropriate reporting requirements for the remuneration of the Acting Director, Screen. The disclosures were amended in line with our recommendations.</p> <p>Methodology used by officers to assess the remuneration to be recognised was discussed and adjustments identified were made. There is scope for Creative Scotland to obtain concise remuneration information from their third-party payroll service provider.</p> <p> <a href="#">Recommendation 1</a> (refer appendix 1, action plan)</p>
<p><b>2. Trade Union Relations</b></p> <p>The Trade Union Relations disclosure in the Remuneration report does not meet the requirements of The Trade Union (Facility Time Publication Requirements) Regulations 2017.</p> <p>These require relevant organisations to capture specific data to permit reporting of Trade Union activity, such as the percentage of Trade Union representatives' working time that is spent on facility time.</p> <p>The regulations also required this information to be published on the website by 31 July 2018 and this deadline has not been met.</p>	<p>Agreement was reached with officers that the regulations apply to Creative Scotland. Finance and HR staff are in the process of reviewing procedures to enable future reporting requirement to be met, both in the statement of accounts and through publication on the Creative Scotland website.</p> <p> <a href="#">Recommendation 2</a> (refer appendix 1, action plan)</p>

Issue	Resolution
<p><b>3. Performance Reporting Measures</b></p> <p>The Financial Reporting Manual requires audited bodies to disclose within the statement of accounts information on its key performance measures and how it measures performance against those.</p> <p>Whilst Creative Scotland discloses outcomes and performance measures in its Annual Review of Performance this information is not included within the Performance section of the Annual Report and Accounts.</p>	<p>No outcomes against performance were reported in the revised annual report and accounts. Officers agreed to explore ways of improving this disclosure for the 2018/19 annual report and accounts.</p> <p> <a href="#">Recommendation 3</a> (refer appendix 1, action plan)</p>
<p><b>4. Anti-bribery disclosures</b></p> <p>The Financial Reporting Manual requires audited bodies to disclose specific non-financial information within the performance analysis section. This includes details of how the entity implements anti-bribery and anti-corruption measures. These matters had not been included within the draft statement of accounts.</p>	<p>The requirement for anti-bribery and anti-corruption matters to be included in the Performance Analysis was discussed with officers. Recommendations for disclosure were shared with officers and have been included in the audited statement of accounts.</p>
<p><b>5. IAS 19 Pension valuation</b></p> <p>The Hymans Robertson actuarial report was produced using estimated data for the final part of the year. The final value for Strathclyde Pension Fund was £500m higher than the figure used by Hymans Robertson in its valuation report which has resulted in the pension fund valuation being understated by £0.188m.</p>	<p>This has been treated as an unadjusted error – see para 24.</p>

## Follow up of prior year recommendations

**27.** We have followed up actions agreed in our 2016/17 Annual Audit Report to assess progress with implementation. We have reported progress of these prior year actions in [Appendix 1](#). They are identified by the prefix b/f (brought forward).

**28.** 5 agreed actions were raised in 2016/17. Of these:

- 4 have been fully implemented
- 1 has been partially actioned.

**29.** Overall Creative Scotland has made good progress in implementing these actions. For actions not yet implemented, revised responses and timescales have been agreed with management, as set out in [Appendix 1](#).

# Part 2

## Financial management



### Main judgements

**Creative Scotland and Creative Scotland National Lottery Distribution Fund had effective overall management of the 2017/18 budgets.**

**Systems of internal control operated effectively in 2017/18 with scope for improvements in implementation of some internal audit recommendations.**

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

### Financial performance in 2017/18

**30.** The main financial objective for Creative Scotland and Creative Scotland National Lottery Distribution Fund is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

**31.** Creative Scotland has reported a net expenditure outturn of £45.3 million, remaining within its overall budget for 2017/18 with an underspend of £0.3 million. The small underspend is attributed to an increase in project and other income of £1.9m netted against overspends of £1.6m. Overspends are attributed to increased grant expenditure and increased staff costs relating to strain on the fund costs.

**32.** Creative Scotland National Lottery Distribution Fund incurred expenditure of £29.046m and received income of £29.781m resulting in a surplus of £0.735m. This surplus was achieved despite a budgeted deficit of 3.8m and resulted in an overall variance to budget in the year of 4.5m. The principal variances can be attributed to a less severe decline in National Lottery ticket sales than anticipated and a higher return to the Fund from unclaimed prizes. Uncommitted capital expenditure budgeted for 2017/18 also contributed to the surplus but will now be spent in 2018/19.

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

### Budgetary processes

**33.** We reviewed Creative Scotland's budgetary processes and budget monitoring arrangements. The 2017/18 budget was approved as part of the Annual Plan and published in April 2017, following approval by both the Finance & General Purposes committee and the Creative Scotland board.

**34.** Management accounts were prepared monthly and reviewed by the Senior Leadership Team. Budgetary updates were also taken to meetings of the Finance & General Purposes committee.

**35.** From our review of budget monitoring reports, review of committee papers and attendance at committees we confirm that senior management and members receive regular, timely and up to date information on the financial position. We

conclude that Creative Scotland has appropriate budgetary monitoring and control arrangements that allow members and officers to carry out effective scrutiny of its finances.

## Systems of internal control

**36.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce 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.

**37.** From the work carried out in assessing the system of internal controls we concluded that the controls tested 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 to result in a material misstatement in the financial statements.

**38.** Internal Audit carry out reviews of Creative Scotland's systems as part of their annual audit plan. The Grant Management system has been assessed as part of both the 2016/17 and 2017/18 Internal Audit Annual Plans. In March 2018, Internal Audit concluded that the control system in respect of the Grant Management system was satisfactory.

**39.** An update on internal audit recommendations was presented to the 31 May 2018 meeting of the Audit & Risk committee. This informed members that 3 recommendations specifically in respect of the Grant Management system had not been actioned within agreed timescales. These were assessed as either partially implemented or having little or no progress made. While we do not consider that these constitute significant control weaknesses, it is good practice to implement recommendations promptly and we recommend that Creative Scotland addresses outstanding recommendations to meet revised completion dates.



### Recommendation 4

**Officers should act to ensure that Internal Audit recommendations are actioned in accordance with agreed timescales.**

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## ICT controls

**40.** Internal audit made a recommendation in its review of the Grant Management system to restrict finance staff access to the system to ensure they could not amend grant awards or details of payments. We note that this user access control has been implemented in accordance with the agreed timescale.

## Financial capacity

**41.** We are satisfied that there are suitably qualified and experienced officials leading the Creative Scotland finance team, and there are sufficient financial skills, capacity and capability in the organisation.

# Part 3

## Financial sustainability



### Main judgements

**Creative Scotland has adequate financial planning arrangements in place.**

**Creative Scotland should continue to monitor funding allocations and consider the most efficient and effective ways to deliver its objectives and priorities with potentially decreasing resources.**

### Financial planning

**42.** The Creative Scotland board approved the 2018/19 budget on 29 March 2018. This followed scrutiny and discussion of the budget by the Finance & General Purposes committee in February 2018.

**43.** Earlier versions of the draft budget were revised following the Board meetings of 18 January 2018 and 2 February 2018, where the Regular Funding decisions were initially approved and then amended.

**44.** Creative Scotland's Grant in Aid budget projects a break-even position in 2018/19. The National Lottery Distribution Fund has a budget deficit in 2018/19 of £400k.

**45.** The budget approved by the board includes projections for a further 3 years, capturing expected cashflows to the end of 2021/22. Grant in Aid is projected to break-even in each of the years to 2021/22. For the National Lottery Distribution Fund, the projection is for a surplus in each of the years following 2018/19 and for the Fund to achieve a net asset position by 2022.

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.

### 2017/18 financial position

**46.** The Statement of Financial Position summarises what is owned and owed by the reporting entity. 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.

**47.** The financial statements show that for Creative Scotland:

- Net assets have increased from £1.384 million to £1.813 million with the increase arising principally from a reduction in year-end creditors and a reduction in the pension liability, partially offset by a decrease in the year-end debtor balance.
- The pension scheme liability remains in a deficit position with liabilities exceeding assets by £0.825 million.

For the Creative Scotland National Lottery Distribution Fund, the net liability of £2.966m reflects an improvement from the £3.701m net liability disclosed in the 2016/17 audited financial statements. This is driven principally by an increase in

the value of investments in the National Lottery Distribution Fund, partially offset by an increase in grant payments outstanding.

## New Financial Powers and EU Withdrawal

**48.** Proposals have been made for changes to the Scottish Budget process with these likely to be introduced for the 2019/20 budget.

**49.** Creative Scotland include several risks in its risk register relating to potential reductions in funding. These include reduced lottery funding, reduced Scottish Government ring-fenced funding, and the potential impact of Brexit and any future Scottish independence referendum.

**50.** The Scottish Government has, however, demonstrated support for Creative Scotland, awarding increased funding to compensate for the fall in National Lottery funding attributed to falling lottery ticket sales.

**51.** The full impact of Brexit remains unknown but Creative Scotland do not anticipate any significant impact of EU withdrawal on its existing workforce, funding streams, or regulation.

**52.** The medium to longer term financial position is difficult to predict given the uncertainty around EU withdrawal and New Financial Powers. Creative Scotland should continue to plan for these events including scenario planning and modelling as part of their longer-term planning.

## Medium to long term financial planning

**53.** 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.

**54.** Creative Scotland is mainly funded from Scottish Government (SG) budget allocation through Grant-in-aid and from the National Lottery funding. The annual budget approved by the Board includes projections for the year ahead and a further 3 financial years with assumptions made for changes in funding from these sources.

**55.** There is a risk that a decline in funding from one or both sources will compromise Creative Scotland's ability to deliver outcomes and priorities identified in both the 10 Year Plan and in the Annual Plan published each year.



### Recommendation 5

**Creative Scotland should continue to closely monitor funding allocations and consider the most efficient and effective ways to deliver its objectives and priorities with potentially decreasing resources.**

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## Ending of public sector pay cap

**56.** The Senior Leadership Team (SLT) received a report in February 2018 which detailed costs of £89,000 for lifting the 1% pay cap in 2018/19. This was approved by both the SLT and the Finance & General Purposes committee.

**57.** Following discussions with Trade Union representatives a further paper was presented to the June 2018 Finance & General Purposes committee recommending a flat £750 uplift for employees earning £25,000 and below. This was considered affordable by Senior Management from pay bill savings identified and was approved by the committee. The proposal has been submitted to the Scottish Government for approval.

**58.** While the ending of the pay cap will increase demands on Creative Scotland's resources, we are satisfied that this has been given appropriate consideration and has been factored into the annual budget process.

# Part 4

## Governance and transparency



### Main judgements

**Creative Scotland has an adequate governance structure in place**

**Recommendations from the independent Regular Funding review should be implemented to improve governance in relation to approval of funding decisions**

**Creative Scotland has arrangements in place to demonstrate transparency but there is scope for improvement.**

### Governance arrangements

**59.** Creative Scotland is supported by a Board of members who are appointed by, and accountable to, the Scottish Government. The Board has corporate responsibility for ensuring that Creative Scotland fulfils its aims and objectives, including delivery of its strategic objectives. The board is required to meet at least 4 times a year in accordance with its Terms of Reference. The board met on 9 occasions during 2017/18.

**60.** Robert Wilson was appointed Chair of the Board on 10 February 2018, succeeding interim Chair Ben Thomson, who had held the post from 26 July 2017. Two board members resigned on 1 February 2018, and a further member left the Board at the end of their term on 30 June 2018. After a successful recruitment process the Scottish Government announced three new appointments to the Creative Scotland board in August 2018.

**61.** The Board is supported by 3 main standing committees: Audit & Risk Committee, the Finance & General Purposes Committee and a Screen Committee.

**62.** We conclude that the Governance structure at Creative Scotland is adequate and permits members to provide advice to, and scrutiny of, the Senior Leadership Team. From attendance at committee meetings and from review of papers and minutes, we consider that committee papers are well prepared and are generally provided to members sufficiently in advance of meetings to permit review.

### Regular Funding 2018-21

**63.** Regular Funding is one of Creative Scotland's main funding streams for arts and creative organisations in Scotland. In January 2018, following Board approval, Creative Scotland announced the outcome of the Regular Funding application process. 116 organisations were awarded funds, including 19 new organisations.

**64.** Following feedback from the arts community and media criticism of the withdrawal of funding to several organisations, 2 Board members resigned from the Board on 1 February 2018. The Board met again on 2 February 2018 to reflect on the decision-making process and to consider whether to increase the Regular Funding budget and expand the number of regular funded organisations (RFO's). The outcome of this meeting was to restore funding to 5 organisations and

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.



increase funding to a sixth, bringing the total number of funded organisations to 121. £2.6m of funds were made available to expand the number of funded organisations, with funds ear-marked for a new Touring Fund re-directed as part of the revised budget.

**65.** Board members reviewed the decision-making process further at a subsequent meeting on 15 February 2018, and expressed the sentiment that the process had been pressured by the imperative to announce decisions by an agreed date. The view was expressed that had there been more time available to debate the Board's concerns, the addition of further organisations agreed at the subsequent meeting on 2nd February could have taken place prior to the public announcement of RFO awards.

**66.** The Chief Executive and the Interim Chair of the Board were called to appear before the Culture, Tourism, Europe and External Affairs Committee on 22 February 2018. At this meeting, the Chief Executive and Interim Chair apologised for the handling of the process and confirmed that a review of the process would be carried out and lessons learned.

**67.** The newly appointed Chair, Robert Wilson, announced an independent review of the RFO 2018/21 process, as well as a wider strategic and operational review within Creative Scotland. A subcommittee of the Board was convened to oversee these reviews. The Independent review commenced in August 2018 with a remit to make recommendations to the Board for future decision-making procedures.

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## Recommendation 6

**Creative Scotland should give due consideration to findings of the independent review and implement recommendations. Any change in approach should ensure the board has sufficient time for scrutiny of funding proposals.**

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**68.** The Chief Executive left her post at the end of June 2018. The Deputy Chief Executive was subsequently appointed Acting Chief Executive and Accountable Officer until a successor is recruited.

## Transparency

**69.** Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

**70.** The Annual Plan and Annual Performance Review are published each year and can be accessed from the Creative Scotland website. Minutes of Board meetings are also posted on the Creative Scotland website following approval.

**71.** We reviewed the Creative Scotland website and media and committee minutes and noted that minutes of board meetings are not published on the website promptly following approval. At August 2018 the minutes of the Board meetings held on 29 March 2018 and 24 May 2018 had not yet been posted on the Creative Scotland website.

**72.** The 2018/19 Annual Plan was approved by the Board in March 2018, subject to necessary proof reading and design. The final Annual Plan has not yet been published and is not available to the public via the Creative Scotland website.

**73.** At the February 2018 meeting of the Culture, Tourism, Europe and External Affairs Committee, the then-Chief Executive and Interim Chair of the Board acknowledged that minutes of the Board meeting of 18 January had been misleading when referring to the Board's RFO decision as unanimous. Minutes were subsequently revised to refer to the decision as a majority decision.

**74.** We conclude that Creative Scotland has governance arrangements in place to conduct its business in an open and transparent manner. However, there is scope for this to be improved in practice, with prompt publication of minutes and other strategic policies.

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## Recommendation 7

**Creative Scotland should ensure that minutes of board meetings are recorded accurately and available for public review via the website promptly following approval. Published documents should also be made available on the website promptly after approval.**

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## Risk management

**75.** Creative Scotland maintains a risk register which identifies the main threats to delivery of its Strategic and Operational objectives, financial, legal and stakeholder risks. The 5 most significant risks are considered at each meeting of the Board, with the complete risk register updated and presented to each meeting of the Audit & Risk Committee. The full risk register is also reviewed by the Board on an annual basis.

**76.** From review of minutes and attendance at Board meetings, we consider that the risk management arrangements are appropriate, and members provide appropriate scrutiny of risks identified and actions taken to mitigate risk.

## Internal audit

**77.** Creative Scotland's internal audit function is carried out by Henderson Loggie. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentation standards, reporting procedures, quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

**78.** We reviewed Creative Scotland's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit.

**79.** We concluded that we would place reliance on the grant management system for our financial statements work. For the purposes of our wider dimension audit work we placed reliance on internal audit findings on Information Governance and Legal Compliance Framework.

## Governance Statement

**80.** HM Treasury's Financial Reporting Manual (the FReM) states that Creative Scotland 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 governance statement and provides assurances around the achievement of the organisation's strategic objectives.

**81.** The SPFM does not prescribe a format for the annual governance statement but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

**82.** We concluded that the 2017/18 governance statement complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents a fair picture of governance arrangements and matters.

## National Fraud Initiative

**83.** 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 irregularity.

**84.** NFI activity is summarised in [Exhibit 4](#).

**85.** 115 matches were identified through the data submitted by Creative Scotland and other organisations. Officers investigated a total of 18 matches, including all 14 recommended matches. No issues were raised through participation in the 2016/17 exercise.

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### Exhibit 4 NFI activity



115

Matches



14

Recommended  
for investigation

18

Completed/closed  
investigations

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

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**86.** No instances of fraud or error were identified through participation in the NFI Exercise. From our review of the exercise carried out by Creative Scotland staff we concluded that the organisations approach to investigating matches is appropriate. Updates on NFI exercises are presented to the Audit & Risk Committee.

**87.** Creative Scotland has policies to support the prevention and detection of fraud and error. A Fraud Management Policy sets out the process by which staff can confidentially report instances of fraud, staff training procedures, and management's responsibilities for the investigation and reporting of any alleged fraudulent activity. A Whistleblowing Policy provided additional guidance to staff on how to report suspicions of fraud or anti-bribery and anti-corruption matters.

**88.** Based on our review of the evidence we concluded that Creative Scotland has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

## Cyber security

**89.** The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

**90.** Creative Scotland has taken steps to ensure that its cyber security arrangements are appropriate. An internal assessment was carried out and this was followed up with an Internal Audit Review. These reviews identified recommendations for improvement which are being followed up by staff.

**91.** The Scottish Government has set a deadline of 31 October 2018 for public sector bodies to attain Cyber Essentials Plus accreditation. An independent third-party review has been carried out and awarded Creative Scotland a basic

accreditation. Actions to be undertaken to achieve the Cyber Essentials Plus accreditation were recommended and are currently being addressed alongside those identified in the earlier exercises. An independent third-party assessment is planned for the end of September 2018 in advance of the 31 October deadline.

**92.** We conclude that Creative Scotland is actively strengthening its cyber resilience arrangements. Creative Scotland completed its Cyber Essentials pre-assessment by the required date of the end of March 2018 and is on track to achieve full compliance with Cyber Essentials Plus accreditation by the end of October 2018.

## **General Data Protection Regulation**

**93.** The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts.

**94.** GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in Creative Scotland incurring significant fines.

**95.** Creative Scotland have appointed an Information Security Officer (ISO) in accordance with the new regulations. Training has been provided by the ISO for all staff covering both GDPR and other data protection matters. GDPR updates were also presented to board members at meetings of the Board and its sub-committees. Privacy Notices and Policies have been updated as required.

**96.** We are satisfied that Creative Scotland has made adequate arrangements for the implementation of GDPR.

# Part 5

## Value for money



### Main judgements

**Creative Scotland regularly monitors and reports performance to members.**

**Creative Scotland should identify those performance indicators for which meaningful targets can be set and against which performance can be assessed.**

### Performance management

**97.** 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, in conjunction with Creative Scotland agree to undertake local work in this area.

**98.** The performance of Creative Scotland is monitored by the Board and supporting committees. The Finance & General purposes committee receive regular management reports to assess financial performance, while the Audit & Risk committee receive reports from Internal Audit that evaluate the systems of internal control.

**99.** Creative Scotland's 10-year plan 'Unlocking Talent Embracing Ambition' sets out 5 Ambitions, each of which has supporting priorities which are aligned to the Scottish Government's National Performance Framework. These ambitions and priorities are then published in Creative Scotland's Annual Plan along with the planned activity to support their delivery.

**100.** Performance in delivering ambitions and priorities is assessed using key performance indicators, which are agreed through discussion with the Scottish Government. These performance indicators are set out in the Annual Plan.

**101.** Performance indicators are measured against baseline measures in an Annual Review of Performance published in December each year. Targets are not set for most performance indicators thereby limiting the scope to assess whether ambitions and priorities are being achieved although we note that there are performance indicators in respect of service delivery. Creative Scotland should build on this approach and develop a range of targets which can be used to demonstrate progress against the performance indicators.

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

### Recommendation 8

**Creative Scotland should identify those performance indicators for which meaningful targets can be set and against which performance can be assessed.**

**102.** We conclude that Creative Scotland has a performance management framework in place which supports the achievement of value for money but which has scope to make better use of targets to enhance the measuring and monitoring of progress.

### Overview of service performance

**103.** As noted above, service performance is the one area where targets are set. In December 2017 the 2016/17 Annual Review was published and the following targets were disclosed:

- 90% of Funding applications to be processed within the specified timeframe – achieved 86%
- 90% of initial payments to successful applicants paid within the specified timeframe – achieved 100%.
- 90% of invoices paid within 10 working days – achieved 74%.

**104.** Service performance is not reported in the statement of accounts. Performance will be reported within the Annual Review that is due to be published in December 2018.

### National performance audit reports

**105.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 several reports were published which are of direct interest to Creative Scotland. These are outlined in [Appendix 3](#)

**106.** Creative Scotland has arrangements in place to consider national Reports through presentation at the meetings of the Board or relevant subcommittee.

# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Remuneration working papers</b></p> <p>We identified differences in the remuneration of SLT members due to the methodology used by officers.</p> <p><b>Risk</b></p> <p>There is a risk that remuneration will be wrongly stated in the statement of accounts</p>	<p>Creative Scotland should engage with their third-party payroll service provider to identify concise remuneration information that could be provided to simplify the process of reporting remuneration in the annual statement of accounts.</p> <p><a href="#">Exhibit 3, page 9</a></p>	<p>Agreed- will take place for 2018/19 accounts.</p> <p>By: Finance Manager</p> <p>Due date: June 2019</p>
2	<p><b>Trade Union Relations Disclosure</b></p> <p>The Trade Union Relations disclosure in the Remuneration report does not meet the requirements of The Trade Union (Facility Time Publication Requirements) Regulations 2017.</p> <p>The regulations also required publication of this information on the website by 31 July 2018 and this deadline has not been met.</p> <p><b>Risk</b></p> <p>There is a risk that Creative Scotland fail to meet their reporting obligations in respect of Trade Union disclosures.</p>	<p>Officers should put procedures in place to capture the required information that will permit this reporting requirement to be met, both in the statement of accounts and through publication on the Creative Scotland website.</p> <p><a href="#">Exhibit 3, page 9.</a></p>	<p>Agreed, process in place in for 2018/19 reporting</p> <p>By: Finance manager</p> <p>Due date: June 2019</p>
3	<p><b>Performance reporting</b></p> <p>The Financial Reporting Manual requires audited bodies to disclose within the statement of accounts information on its key</p>	<p>Officers should enhance reporting of performance in the statement of accounts to fully comply with the reporting framework and the framework agreement between Creative</p>	<p>The Performance review section explains that performance reporting occurs in the separately published Annual Review document which cover both National Lottery and Creative Scotland</p>





No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>performance measures and how it measures performance against those measures.</p> <p>From review of the Performance Analysis section of the accounts we noted that there are no details of performance against key performance measures.</p> <p><b>Risk</b></p> <p>There is a risk that the statement of accounts does not fully comply with the reporting framework.</p>	<p>Scotland and the Scottish Government.</p> <p>Performance is disclosed in the Annual Review published later in the year. Staff should arrange to gather data earlier to permit reporting within the Annual report and accounts.</p> <p><a href="#">Exhibit 3, page 9</a></p>	<p>activity. Reporting total performance in the individual sets of accounts could be confusing to readers. Ways of improving disclosure while avoiding confusion will be investigated for the 2018/19 annual report and accounts.</p> <p>By: Director of Finance and Funding Operations</p> <p>Due date: June 2019</p>
4	<p><b>Internal Audit Recommendations</b></p> <p>There are several Internal Audit recommendations in respect of the grant management system that have not been implemented in accordance with agreed timescales.</p> <p><b>Risk</b></p> <p>There is a risk that the controls systems do not operate effectively</p>	<p>Officers should act to ensure that Internal Audit recommendations are implemented in accordance with agreed timescales.</p> <p><a href="#">Paragraph 39, page 12</a></p>	<p>These points are being addressed and a process is in place for managing the implementation of recommendations.</p> <p>By: Director of Finance and Funding Operations</p> <p>Due date: October 2019</p>
5	<p><b>Financial Sustainability</b></p> <p>Any decrease in future funding levels from the Scottish Government and/or falling sales from the National Lottery may impact on the future funding of projects and achievement of priorities.</p> <p><b>Risk</b></p> <p>There is a risk that reduced funding will negatively impact on Creative Scotland's ability to deliver its ambitions and priorities.</p>	<p>Creative Scotland should continue to closely monitor funding allocations and consider the most efficient and effective ways to deliver its objectives and priorities with potentially decreasing resources.</p> <p><a href="#">Paragraph 54, page 14</a></p>	<p>Agreed</p> <p>By: Director of Finance and Funding Operations</p> <p>Due date: ongoing</p>
6	<p><b>RFO Funding</b></p> <p>An independent review of the 2018/21 RFO exercise was instigated by the Chair of the Board following criticism of the decision-making process.</p> <p><b>Risk</b></p>	<p>Creative Scotland should give due consideration to findings of the independent review and implement recommendations. Any change in approach should ensure the board has sufficient time for scrutiny of funding proposals.</p>	<p>Agreed</p> <p>By: Chief Executive Officer</p> <p>Due date: March 2019</p>





No.	Issue/risk	Recommendation	Agreed management action/timing
	There is a risk that recommendations identified from the independent review are not fully implemented resulting in further reputational damage to Creative Scotland.	<a href="#">Paragraph 70, page 17</a>	
7	<p><b>Transparency</b></p> <p>Board minutes and the Annual Plan have not been posted on the Creative Scotland website promptly following approval.</p> <p><b>Risk</b></p> <p>There is a risk that Creative Scotland is perceived to operate in a manner that is not open and transparent, leading to reputational damage.</p>	<p>Creative Scotland should ensure that minutes of board meetings are recorded accurately and available for public review via the website promptly following approval.</p> <p>Published documents should also be made available on the website promptly following board approval.</p> <p><a href="#">Paragraph 78, page 18</a></p>	<p>Agreed, currently one set of approved minutes are awaiting publication.</p> <p>By: Chief Executive Officer</p> <p>Due date: Ongoing</p>
8	<p><b>Performance Targets</b></p> <p>Performance indicators are measured against baseline outcomes from prior years rather than against forward-looking targets.</p> <p><b>Risk</b></p> <p>There is a risk that without setting targets Creative Scotland cannot fully measure the impact it has in delivering ambitions and priorities.</p>	<p>Creative Scotland should identify those performance indicators for which meaningful targets can be set and against which performance can be assessed.</p> <p><a href="#">Paragraph 102, page 18</a></p>	<p>Agreed. Performance indicators will be reviewed for the 2019/20 planning process.</p> <p>By: Board</p> <p>Due date: March 2019</p>

### Follow up of prior year recommendations

b/f	<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 equivalent, which formally documents the services provided, the level of recharges, costs to be apportioned and repayment arrangements.</p>	<p>Creative Scotland should formalise in writing the arrangements between them and Creative Scotland NLDF for the recharging of support costs.</p>	<p>A Recharge Policy was drafted by the Director of Finance and approved at the 28 February 2018 meeting of the Finance &amp; General Purposes committee.</p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Risk</p> <p>The basis for the recharging of support costs is not transparent and may be difficult to justify.</p>		
b/f	<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 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>	<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 policy approved by the Finance &amp; General Purposes committee in February 2018 included a review of current funding levels and time spent on grant awards from both funding streams. The existing recharge rate of 40% remains appropriate and will be subject to on-going review.</p>
b/f	<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>All staff should be reminded of the requirement to complete and submit the disclosure timeously.</p>	<p>An annual exercise to obtain staff declarations of interest was undertaken in April 2018. A return rate of 96% has been achieved for this exercise, with outstanding responses due to a small number of long-term staff absences.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Risk</p> <p>Related party disclosures may be incomplete.</p>		
<b>b/f</b>	<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 review budgets and monitor both short and long term financial plans and projections</p>	<p>Budget updates were presented to meetings of the Finance and General Purposes committee. These included any emerging issues, for example changes in income from lottery sales.</p> <p>The annual budget for 2018/19 also includes projections for a further 3 years, allowing officers to evaluate the longer term financial position.</p>
<b>b/f</b>	<p><b>5. Performance targets</b></p> <p>Outcomes and performance 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>Targets should be set for each of the measures used to assess performance against the agreed outcomes and ambitions.</p>	<p>Key performance Indicators included in the 2018/19 Annual Plan were updated to more closely align with Creative Scotland's ambitions as set out in the 10 Year Plan.</p> <p>Indicators are measured against baseline data from 2015/16 and 2016/17 rather than against targets.</p> <p>Refer to recommendation 8 above for further detail.</p> <p>Scope for improving performance reporting in the Annual Report and Accounts has not been fully addressed.</p> <p>Refer to recommendation 3 above for further detail.</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 of both CS and CSNLDF</b>		
<p><b>1</b></p> <p><b>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 consideration of 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 income and expenditure to ensure this has been accounted for appropriately.</p> <p>Review of the apportionment of costs and accounting estimates for reasonableness.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Substantive testing of journal entries, grant income and expenditure, accrual and payments, and other significant transactions identified no errors.</p> <p>Apportionment of costs was found to be consistent with the recharge policy approved by the Finance &amp; General Purposes committee.</p>
<p><b>2</b></p> <p><b>Risk of fraud over expenditure</b></p> <p>Most public sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. CS &amp; CSNLDF incur significant expenditure on the award of grants and we therefore recognise this as a financial statements risk.</p>	<p>Walk through of the grant management system.</p> <p>Detailed testing of grant expenditure to ensure all conditions have been met to recognise the expense in the financial statements.</p>	<p>No significant issues were identified from our review of the Grant Management system.</p> <p>Recognition of expenditure in the financial statements was in accordance with accounting standards.</p>
<p><b>3</b></p> <p><b>Accounting for Grants</b></p> <p>Almost all expenditure incurred by CS &amp; CSNLDF relates to grant funding awarded. There is a degree of subjectivity in the measurement of grants</p>	<p>Detailed testing of grant expenditure to ensure it has been accounted for correctly.</p>	<p>Recognition of expenditure in the financial statements was in accordance with accounting standards and applied consistently.</p>

Audit Risk	Assurance procedure	Results and conclusions
awarded and we recognise that this subjectivity represents a risk of misstatement in the financial statements.	Focused testing of year end estimates and assumptions.	
<p><b>4</b></p> <p><b>Recharge of Costs to CSNLDF</b></p> <p>Services provided by Creative Scotland are recharged to CSNLDF on the basis of lottery income over a period of years. With lottery funding declining, there is a risk that the existing 40% level of recharge does not fairly reflect the true cost to Creative Scotland of providing services to the National Lottery Distribution Fund.</p>	<p>Focused testing of the percentage of costs recharged to CSNLDF and the underlying basis upon which this is calculated to ensure it has been accounted for correctly.</p>	<p>From review of the methodology for calculating the recharge rate we conclude that the 40% recharge rate remains appropriate.</p> <p>The recharge policy has now been formalised through approval at the March 2018 meeting of the Finance &amp; General Purposes Committee.</p>
<b>Financial Statements Issues and Risks for CSNLDF only</b>		
<p><b>5</b></p> <p><b>Risk of Fraud/Error over Income</b></p> <p>CSNLDF receives approximately £0.5m of income from sources other than the National Lottery. The extent and timing of receipt of this income means that there is an inherent risk of fraud or error that requires an audit response.</p>	<p>Substantive testing across different income streams focussing on areas of greatest risk.</p>	<p>Focused testing of income from both the National Lottery and other streams was carried out.</p> <p>We found no errors in the recognition of income from the work carried out.</p>
<b>Wider Dimension Risks</b>		
<p><b>6</b></p> <p><b>Financial sustainability</b></p> <p>The Scottish Government increased the Grant in Aid budget awarded to Creative Scotland in 2018/19 to offset the drop in Lottery funding. There is a risk that this may not be sustainable and Creative Scotland should ensure it has appropriate budget monitoring and longer term planning arrangements in place to address this challenge.</p>	<p>Regular review of CS &amp; CSNLDF Management Accounts to assess performance and assumptions.</p> <p>Review of longer term financial plans.</p>	<p>The annual budget for 2018/19 includes additional projections for 2019/20, 2020/21 and 2021/22. This includes assumptions on longer term funding from the Scottish Government and from National Lottery funding.</p> <p>Management accounts were found to be subject to regular review by the Senior Leadership team and by the Finance &amp; General Purposes committee.</p>

Audit Risk		Assurance procedure	Results and conclusions
<p><b>7</b></p> <p><b>Governance and transparency</b></p> <p>There have recently been some changes to the composition of the Creative Scotland Board. A new Chair has been appointed following an interim period and two members have resigned.</p> <p>There is a risk to the Board that the public perceive that the openness and transparency of decision making is reduced, which may prevent Creative Scotland from demonstrating high standards of effectiveness in its use of public funds.</p>		<p>Attendance at Board and committee meetings to assess the level of discussion and scrutiny of proposals undertaken.</p> <p>Review of Board and supporting committee meeting minutes.</p>	<p>We conclude that there is adequate scrutiny and discussion at Board meetings.</p> <p>However, we found evidence of a lack of transparency through the delay in publishing Board minutes and the Annual Plan on the Creative Scotland website, and an instance of inaccuracy in the minutes reported which required revision.</p>
<p><b>8</b></p> <p><b>Value for money</b></p> <p>Creative Scotland reports a number of outcome and performance indicators through its Annual Review of Performance report. The measures do not have specific targets assigned to gauge progress in delivering these outcomes. There is a risk that progress in achieving outcomes cannot be effectively monitored and reported.</p>		<p>We will review performance reports prepared for the Board to assess progress being made against core objectives and to determine the extent to which targets are set and used to monitor progress.</p>	<p>In the absence of performance reports, we considered the performance indicators published in the 2018/19 Annual Plan.</p> <p>Although there are a few service delivery indicators which permit evaluation against a defined target, most performance indicators will again be compared to prior year baseline values rather than aspirational targets.</p>

# Appendix 3

## Summary of national performance reports 2017/18

		 <b>2017/18 Reports</b>	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		<b>Jun</b>	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		<b>Aug</b>	
Equal pay in Scottish councils		<b>Sept</b>	
Transport Scotland's ferry services		<b>Oct</b>	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		<b>Nov</b>	
		Dec	
		Jan	
Early learning and childcare		<b>Feb</b>	
Managing the implementation of the Scotland Acts		<b>Mar</b>	

### Central Government relevant reports

[Common Agricultural Policy Futures programme: further update](#) – June 2017

[Transport Scotland's ferry services](#) – October 2017

[Early learning and childcare](#) – February 2018

[Managing the implementation of the Scotland Acts](#) – March 2018

# Creative Scotland and Creative Scotland National Lottery Distribution Fund

## 2017/18 Annual Audit Report

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