

Scottish Consolidated Fund

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Government and the Auditor General for Scotland

October 2023

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Key messages

2022/23 Scottish Consolidated Fund

- 1 In our opinion the financial statements of the Scottish Consolidated Fund properly present the receipts and payments of the Fund for the year ended 31 March 2023.
- 2 The receipts and payments presented in the 2022/23 Scottish Consolidated Fund were incurred in accordance with the relevant applicable enactments and guidance issued by the Scottish Ministers.
- 3 The independent auditor's report on the 2022/23 Scottish Consolidated Fund accounts is unmodified.

Financial sustainability and governance

- 4 Staff changes affected the overall management of the Scottish Consolidated Fund in 2022/23. Continuity of staff within Treasury and Banking will be essential to the effective management of operations.
- 5 We recognise that the deficit for the year reduces the cash balances but are content that the Scottish Consolidated Fund is managing the overall cash position.
- 6 We concluded that the information in the Governance Statement complies with the guidance issued by Scottish Ministers.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of the Scottish Consolidated Fund (SCF). This report is addressed to the Scottish Government and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

2. The scope of the audit was set out in our 2022/23 Annual Audit Plan presented to the March 2023 meeting of the Scottish Government Audit and Assurance Committee. This Annual Audit Report comprises significant matters arising from the audit of the 2022/23 SCF accounts and conclusions on the wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#). Due to the low volume and lack of complexity of the financial transactions, we applied the less complex provisions of the Code to the 2022/23 audit which enabled us to focus on financial sustainability and governance.

Audit appointment from 2022/23

3. I, Carole Grant, have been appointed by the Auditor General for Scotland as auditor of the SCF. The 2022/23 financial year was the first of my five-year appointment. My team and I would like to thank all staff involved in assisting our audit of the SCF this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

4. The Scottish Government has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing the SCF accounts in accordance with the accounts direction from Scottish Ministers. The Scottish Government is also responsible for compliance with legislation and putting arrangements in place for governance, propriety, and regularity.

5. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the [Code of Audit Practice 2021](#), and International Standards on Auditing in the UK.

6. This report contains an agreed action plan at [Appendix 1](#). Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

Auditor Independence

7. 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 2022/23 audit fee of £24,570 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Part 1. Audit of 2022/23 Scottish Consolidated Fund

Main judgements

In our opinion the financial statements of the Scottish Consolidated Fund properly present the receipts and payments of the Fund for the year ended 31 March 2023.

The receipts and payments presented in the financial statements were incurred in accordance with the relevant applicable enactments and guidance issued by the Scottish Ministers.

The independent auditor's report on the 2022/23 Scottish Consolidated Fund accounts is unmodified.

Our audit opinions are unmodified

8. The SCF accounts for the year ended 31 March 2023 were provided to the Scottish Government Audit and Assurance Committee on 30 October 2023. As reported in the independent auditor's report:

- the financial statements properly present, in accordance with applicable legislation and directions made thereunder by the Scottish Ministers, the receipts and payments of the fund for the year ended 31 March 2023 and the balances held at that date
- in all material respects the sums paid out of the fund were applied in accordance with applicable enactments and guidance issues by the Scottish Ministers
- the information given in the Foreword and Governance Statement is consistent with the financial statements and it has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Overall materiality was reviewed on receipt of the unaudited annual report and accounts

9. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

10. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and updated on receipt of the unaudited SCF accounts as summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Planning	Final
Overall materiality – This figure is used to assess the overall impact of audit adjustments on the financial statements. It has been set at 2 per cent of judicial salaries for the year ended 31 March 2023.	£744,000	£748,000
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 assessed performance at 75 per cent of planning materiality.	£558,000	£561,000
Reporting threshold – Due to the nature of the SCF we are required to report to those charged with governance on all unadjusted misstatements.	N/A	N/A

Source: Audit Scotland

Significant findings and key audit matters

11. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

12. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

13. The significant findings and key audit matters are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Receipts from the Office of the Secretary of State for Scotland</p> <p>The SCF accounts record receipts from the Secretary of State for Scotland of £28,549 million. The 2022/23 audited accounts of the Scotland Office and Office of the Advocate General for Scotland records £28,533 million. The difference of £16 million relates to a miscoding of monies returned from the Scottish Government to SCF and later paid out to Scottish Courts and Tribunal Service.</p>	<p>We have reviewed the underlying reasons for the differences and are content that the SCF financial statements properly reflect the receipts received in year.</p>
<p>2. Payments authorised under the Budget Act</p> <p>The SCF accounts record at note 16 (payments authorised under the Budget Acts) that £49,441 million was authorised for the Scottish Government and other directly funded bodies under the Budget Act. This amount differs from that recorded in the Scottish Government Statement of Taxpayers Equity (parliamentary funding £49,445 million). The difference (£4 million) relates to:</p> <ul style="list-style-type: none"> • £9.153 million incorrectly retained by the Scottish Government (see point 4 below) • £5.5 million of funding to Registers of Scotland which is included within the SCF amount but does not feed into the figure in the Scottish Government Statement of Taxpayers Equity 	<p>We have reviewed the differences reported in the SCF and Scottish Government Consolidated Accounts. We are content that they have properly recorded in the SCF Account and that the financial statements correctly reflect the receipts and payments in year.</p>
<p>3. Adequacy of working papers to support the accounts</p> <p>We continue to note some improvements to the working papers which support the accounts. However, there is no overarching document which links the entries in the fund accounts to the evidence. This adds to the difficulties of matching the relevant evidence to the transaction. There remains scope to further link the evidence to the transactions posted and to the requisition spreadsheet.</p>	<p>The newly appointed Head of Treasury and Banking has agreed to review the back up and tracker document provided in support of the accounts.</p> <p>Recommendation 1</p>

Issue	Resolution
<p>4. Monies retained by Scottish Government in error</p> <p>We identified two instances where funds were retained by the Scottish Government in error. The first was excess funding of £9 million which Scottish Courts and Tribunal Service (SCTS) returned to the Scottish Government rather than directly to the SCF. This was not transferred back to SCF and effectively became Scottish Government working capital.</p> <p>In addition, £0.153 million of designated receipts due to be surrendered to the UK Consolidated Fund were sent to the Scottish Government bank account rather than to the Scotland Office.</p>	<p>We consulted with our technical experts and reviewed the transactions. We note that these monies were not formal revisions which required notification to Parliament and that this was an oversight. The Scottish Government have agreed to review their procedures going forward.</p> <p>Recommendation 2</p>

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14. Our audit identified presentational and disclosure issues which were discussed with and amended by management. In particular, there was an adjustment of £151.5 million relating to funding returned to the SCF from the Scottish Government which was incorrectly coded to grant receipts instead of reducing the payments authorised under the Budget Act.

15. There are no unadjusted errors to report.

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

16. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified significant risk of material misstatement to the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique</p>	<ul style="list-style-type: none"> Enquire about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. 	<p>Our testing did not identify any issues and we found no evidence of management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in every audit.</p>	<ul style="list-style-type: none"> • Test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Substantive testing of receipts and payments transactions. • Review any drawdowns made on the contingency fund 	

Source: Audit Scotland

Other areas of audit focus

17. As part of our assessment of audit risks, we identified other areas of focus for our audit work. These were:

- the need for further improvements to the linkages between supporting documents and the unaudited accounts – a recommendation has been made (see [Exhibit 2, point 3](#)) to further improve this area.
- the changes to key personnel involved in the preparation of the accounts and to support the audit process - this had an adverse impact on the accounts preparation and audit process impacting on the efficiency, but ultimately, we received the audit evidence to support our opinion. A new Head of Treasury and Banking was appointed in summer 2023.
- the need for further improvement to the governance statement and financial statements disclosure notes - some improvements were noted and the new Head of Treasury and Banking has committed to continuing the process of improvement going forwards. ([Recommendation 3](#))

18. The unaudited annual report and accounts were received in line with our agreed audit timetable on 30 June 2023.

Some progress was made on prior year recommendations

19. The Scottish Government has progressed the prior year audit recommendations as detailed in [Appendix 1](#).

Part 2. Financial sustainability and governance

Conclusion

Staff changes affected the overall management of the SCF in 2022/23. Continuity of staff within Treasury and Banking is essential to the effective management of operations.

We recognise that the deficit for the year reduces the cash balance but are content that the SCF is managing the overall cash position.

We concluded that the information in the Governance Statement complies with the guidance issued by Scottish Ministers.

Financial performance in 2022/23

20. The SCF receives a block grant from the UK's Consolidated Fund plus the operational receipts of the Scottish Government. Funding is drawn down by the Scottish Government from the SCF to support the spending plans approved by the Scottish Parliament in the annual Budget Act. The Fund operates under the Scotland Act 1998.

21. The SCF receives, from the Office of the Secretary of State for Scotland, sums which have been voted by the UK Parliament for the purpose of grant payable to the Fund. A number of other receipts are also paid into the Fund, including receipts from the collection of devolved taxes, national insurance contributions and Scottish income tax.

22. The receipts paid into the SCF during the year totalled £50,511 million with payments made from the SCF of £50,519 million. This resulted in a deficit of £8 million in 2022/23 (deficit of £83 million in 2021/22). The cash reserve balance therefore decreased from £205 million to £197 million.

23. The SCF is operated by the Treasury and Banking Branch of the Scottish Government. Following the completion of cash flow forecasting exercises, officials make monthly drawdown requests for funding from the UK Consolidated Fund. These amounts are tracked against a maximum limit set by the UK Parliament through the Central Government Supply Estimates.

24. In 2022/23, the SCF received funding from this source of £28,549 million, which was within the amount stated in the 2022/23 UK Supplementary Estimate. The limit is set by forecasting the cash requirement for the 2022/23 Scottish Budget. Drawing down less than the limit has no effect on the overall spending power of the Scottish Government and the wider Scottish Administration.

25. A short-term advance was required from the UK Contingencies Fund based on the forecast funding required in March 2023 over the remaining available cash funding limit for Scotland. Funding of £313 million was received on 1 March 2023 and subsequently repaid on 27 March 2023 following the increase in the Scotland cash requirement which was included in the UK Spring Supplementary Budget.

26. The governance statement refers to the Scottish Government Audit and Assurance Committee's (SGAAC) role in relation to the Fund. It notes that SGAAC is informed of any issues pertaining to the Fund, and therefore exercises some oversight of the Fund's operations. We understand that SGAAC was not formally advised of this draw on the UK Contingencies Fund. It is our view that SGAAC should have been notified of this issue and the subsequent action taken. We have been advised that the role of SGAAC in relation to the SCF is currently being reviewed.

27. The Scotland Act 2012 empowers the Scottish Parliament to set a Scottish Rate of Income Tax for Scottish taxpayers. Income tax earned from Scottish taxpayers is assigned to the Scottish Administration and paid into the SCF. In 2022/23 this amounted to £13,820 million (£11,642 million in 2021/22). The total amount of devolved tax receipts (Land and Building Transaction Tax and Scottish Landfill Tax) paid into the SCF in 2022/23 was £955 million (£874 million in 2021/22). Further detail is published in a separate Devolved Taxes account, which is produced by Revenue Scotland and audited separately.

28. Non-Domestic Rates (NDR) income collected by councils is paid into the SCF, before being passed on to the Scottish Government for redistribution as funding. Receipts from NDR paid into the fund in 2022/23 were £2,766 million (£2,090 million in 2021/22). In addition in 2022/23, some businesses voluntarily repaid some or all of their non-domestic rates relief provided as part of the Covid-19 response. Voluntary repayments of £181,000 were made into the Fund during 2022/23 (£1 million in 2021/22). Further detail on NDR Income is published in the Scottish Government's Non-Domestic Rating Account, which is audited separately.

29. The payment of hereditary revenues from Scottish assets which are collected by Crown Estates Scotland are paid into the SCF. The Crown Estate surplus transferred in 2022/23 was £121 million (£13 million in 2021/22). £103 million of this surplus relates to ScotWind revenues. The ScotWind leasing auction enabled developers to apply for seabed rights to plan and then build windfarms in Scottish waters. Crown Estates Scotland received £755 million from the payment of Scotwind option fees which will, over time, be transferred to the SCF for use by the Scottish Government.

30. Included within other receipts is a one-off receipt of £23 million which refers to cash paid into the SCF following the management change from the European Investment Bank to the Scottish National Investment Bank.

31. The King's and Lord Treasurer's Remembrancer (KLTR) collects the unclaimed sums arising from personal estates and sequestrated companies and after a set period pays them over to the SCF. Receipts of £5 million from the KLTR were included in the 2022/23 fund (£7 million in 2021/22). KLTR accounts are also audited separately.

32. Borrowing repayments totalled £160 million in 2022/23 (£95 million in 2021/22). This increase is due to the accumulated levels of capital and resource borrowing held.

33. As noted above, funding is drawn down from the SCF to support the spending plans approved by the Scottish Parliament in the annual Budget Act. This covers payments to the Scottish Administration, Audit Scotland and the Scottish Parliamentary Corporate Body. There are a number of other charges on the fund including capital borrowing and national loans fund repayments, ministerial pension payments and judicial salary payments.

Financial sustainability

34. The annual budget setting process sets cash allocation limits for the authorities funded by drawdowns from the SCF, and monthly drawdowns are monitored against these limits. Requests for cash allocation increases are processed through budget revisions generating a surplus or deficit for the year.

35. At the end of 2022/23, the SCF recorded an excess of payments over receipts of £8 million (£83 million in 2021/22) which was met by the cash balance held by the fund.

36. The Statement of Balances shows the movement and year-end position of both cash and borrowing. At 31 March 2023, the cash balance was £197 million (£205 million in 2021/22) and the net borrowing was £2,026 million (£1,818 million in 2021/22). This includes the £347 million borrowed during 2022/23.

37. We recognise that the deficit for the year reduces the cash balance held but are content that the SCF is managing the overall cash position.

Governance Statement

38. Under the UK Government's Financial Reporting Manual (FReM), an annual governance statement must be included with the 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.

39. Although the SCF sits outside the Scottish Government's Consolidated Accounts, the operation of the Fund is carried out within Scottish Government Finance. The Fund is subject to the same controls and assurance procedures that apply to the Scottish Government. Our review of the governance statement assessed the assurances which are provided to the Scottish Government's Permanent Secretary as Principal Accountable Officer regarding the adequacy and effectiveness of the Fund's system of internal control which operated in the financial year.

40. The SPFM does not prescribe a format of the annual governance statement but sets out minimum requirements for central government bodies. The governance statement within the 2022/23 accounts of the SCF complies with the minimum SPFM requirements.

41. We concluded that the information in the governance complies with the guidance issued by the Scottish Ministers. Based on our knowledge and work performed, we concluded that the statement presents an appropriate assessment of governance arrangements.

42. We reported in our 2021/22 Annual Audit Report that there were some instances where the narrative disclosures in the governance statement, for example disclosure of Scottish Government corporate risks which could impact on the operation of the SCF, and notes to the accounts could be expanded upon to aid the understanding of the reader. Whilst we note some improvement in this regard, there remains further scope for improvement.

43. The governance statement also notes that internal audit has not carried out any work specific to Financial Services Division's operation of the SCF since 2019. Internal Audit have continued to report on the Scottish Government systems and controls, and while we accept that the SCF shares many of the Scottish Government systems and processes, Internal Audit should review the SCF specific controls and processes particularly in light of the many recent staff changes. ([Recommendation 3](#))

Systems of Internal Control

44. 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 there are systems of recording and processing transactions in place which provide a sound basis for the preparation of the financial statements.

45. As noted above, the SCF is subject to the same controls that apply to the Scottish Government and therefore we are able to place reliance on our findings from our Management Report presented to the Scottish Government Audit and Assurance Committee in June 2023. No significant internal control weaknesses were identified during the audit which could affect the ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements of the SCF.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Adequacy of working papers</p> <p>Supporting documents for the financial statements were not always readily available, obvious or easy to follow.</p> <p>Risk - Without a clear audit trail, there is an increased risk of errors occurring in the SCF accounts and/or an adverse audit opinion being issued.</p>	<p>There should be a clear audit trail linking the annual accounts to the electronic supporting documents.</p> <p>Exhibit 2, point 3</p>	<p>Management Action:</p> <p>The Scottish Government will strengthen its data keeping processes and linkages between the evidence for the SCF transactions.</p> <p>Responsible Officer:</p> <p>Head of Treasury and Banking</p> <p>Revised Date:</p> <p>31 March 2024</p>
<p>2. Retained monies</p> <p>The Scottish Government retained monies that should have been returned to SCF, and the UK Consolidated Fund, during 2022/23.</p> <p>Risk. The incorrect treatment impacts on the regularity audit opinion.</p>	<p>The Scottish Government should strengthen arrangements the funding flows, including introducing more robust year end reconciliations.</p> <p>Exhibit 2, point 4</p>	<p>Management Action:</p> <p>The Scottish Government will review and strengthen its reconciliation processes.</p> <p>Responsible Officer:</p> <p>Head of Treasury and Banking</p> <p>Revised Date:</p> <p>31 March 2024</p>
<p>3. Governance statement</p> <p>The governance statement should be reviewed to ensure it provides the reader with relevant information. An SCF specific internal Audit review was last undertaken in 2019.</p>	<p>The governance statement disclosures should be more fully aligned to the Scottish Government governance statement.</p> <p>SCF should be considered for inclusion in the internal audit plan.</p> <p>(Paragraphs 17 and 42)</p>	<p>Management Action:</p> <p>Scottish Government will consider the content of the SCF governance statement. SG Financial Management will discuss any potential approach with Audit Scotland.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk. There is a risk that the governance statement is incomplete.</p>		<p>Responsible Officer: Head of Treasury and Banking Strategic Lead Risk, Control & Assurance</p> <p>Revised Date: 30 June 2024</p>

Follow-up of prior year recommendations

Issue / risk	Recommendation	Update
<p>b/f 1. Audit trail: annual accounts to supporting evidence</p>	<p>To facilitate an efficient audit process there should be a clear audit trail linking the accounts to the electronic supporting documents.</p>	<p>Ongoing There remains scope for further improvements. Recommendation 1</p>
<p>b/f 2. Transparency of reporting</p>	<p>The governance statement disclosures should be more fully aligned to the Scottish Government governance statement.</p> <p>The foreword and accompanying narrative together with the notes to the fund should be enhanced.</p>	<p>Ongoing There remains scope for further improvements. Recommendation 3</p>
<p>b/f 3. Capital Borrowing</p>	<p>The Scottish Government should consider creating a separate loans fund account to ensure that current and future reporting of borrowing is fit for purpose and allows transparent financial reporting to support decisions.</p>	<p>No action currently required As the complexity of borrowing has not changed, we consider that the disclosures within the 2022/23 accounts are adequate. We shall continue to review the adequacy of the disclosure as part of our ongoing audit.</p>

Scottish Consolidated Fund

2022/23 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



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