

# Scottish Executive

**Scottish Consolidated Fund  
Report on the 2006/07 Audit**



**November 2007**



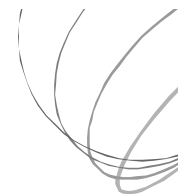
# Scottish Executive

**Scottish Consolidated Fund**

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# Introduction

1. This report sets out the key findings from our audit of the Scottish Executive - Scottish Consolidated Fund (SCF) for the year to 31 March 2007. It covers the outcomes from our audit of the financial statements and governance arrangements. Our responsibilities and approach are outlined in the Scottish Consolidated Fund Audit Plan 2006/07 and can be summarised as assessing:
  - whether the financial statements present fairly a view of the state of affairs of the SCF for the 2006/07 financial year
  - whether the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers
  - whether the financial statements have been prepared properly in accordance with the Scotland Act (1998) and the Public Finance and Accountability (Scotland) Act 2000 and directions made by the Scottish Ministers.

## Financial Statements

### Overall conclusion and financial position

2. We have confirmed that the Scottish Consolidated Fund (SCF) financial statements properly present the receipts and payments of the SCF and the balance held at 31 March 2007 and have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made there-under by the Scottish Ministers. We have also confirmed that in all material respects, the sums paid out of the SCF were in accordance with Section 65 of the Scotland Act 1998.
3. During the financial year the SCF received receipts of £23,841 million, representing an increase of 4% on the prior year. Receipts from the Department for Constitutional Affairs under section 64(2) of the Scotland Act 1998 (£21,752million) and from Non-Domestic Rate (NDR) income (£1,884 million) account for the significant majority of SCF receipts. The SCF made payments of £24,635 million representing an increase of 11% on the prior year. Payments under Budget (Scotland) Act documents account for 99% of all payments made. At the financial year end the SCF reported a deficit of £794 million.

### Fund balances

4. Two balances held by the fund have remained unchanged from the prior financial year. These amount to £41.6million for NHS and £9.5 million for the Queens and Lord Treasurer's Remembrancer (QLTR). We have previously recommended that a clear policy should be implemented covering the



nature of SCF balances held, how they may be utilised and the level of balances held. This recommendation has yet to be implemented.

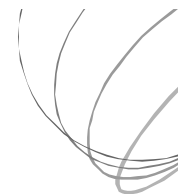
5. With respect to the SCF audit, there is only one issue that we would wish to highlight. In 2001 cash balances of £41.6 million relating to NHS Trusts were surrendered to the SCF. The Scottish Executive agreed with the Treasury, at that time, that this cash could be used by the Executive to meet the costs of repayment of housing debt to a Council when it transferred its housing stock to community ownership. From our audit of that Council, we are not aware of any immediate plans that it has to transfer its housing stock to community ownership and consideration should be given to alternatives.

## Other issues arising

6. We have previously recommended that the policy on accounting for NDR transactions with the Scottish Consolidated Fund be re-considered. The Executive agreed to do this and progress has been made, however, the revised policy framework on the accounting relationship between the Scottish Consolidated Fund, the Scottish Executive and Local Authorities in relation to SCF has still not yet been finalised.
7. The Crown Office and Procurator Fiscal Service (COPFS) continue to utilise receivable orders when making surrenders to the SCF. This approach does not comply with the applicable guidance which requires the use of a specific form (SCF1) for this purpose.

## International Standards on Auditing (ISA) 260

8. International Standard on Auditing (ISA) 260 requires auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':
  - the integrity and objectivity of the audit engagement lead and audit staff
  - the nature and scope of the audit, including any limitations, and the form of reports to be expected made
  - expected modifications to the audit report
  - uncorrected misstatements (other than those which are clearly trifling)
  - material weaknesses in internal control
  - qualitative aspects of accounting practice and financial reporting
  - management representations requested by us
  - matters specifically required by other auditing standards to be communicated to those charged with governance and any other matters that we wish to draw to your attention.



9. Our work on the financial statements is now substantially complete. Subject to the satisfactory receipt of a revised set of accounts for final review, we anticipate being able to issue an unqualified auditor's report. The proposed report is attached at Appendix B. There are no anticipated modifications to the audit report.
10. Information on the integrity and objectivity of the audit engagement lead and staff, and the nature and scope of the audit, were outlined in the Code of Audit Practice prepared by Audit Scotland in March 2007 and the audit plan.
11. With respect to the requirements of ISA 260 there are no matters arising relating to the audit of the SCF. There are no unadjusted misstatements or material weaknesses identified in the accounting and internal control arrangements that require to be brought to the attention of those charged with governance.
12. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. This report has been prepared for the use of the Scottish Executive in its administration of the SCF and no responsibility to any third party is accepted.

## **Corporate governance**

13. The corporate governance and control arrangements relevant to the operation of the SCF were satisfactory during the period under review. This is reflected in the Statement on Internal Control for the SCF and assurances provided to the Principal Accountable Officer on the systems of internal control within the SEFCSD by the Accountable Officer of SEFCSD. However, there is an apparent lack of evidence to substantiate the operation of certain procedures to identify, evaluate and manage significant risks. To further improve control arrangements it is recommended that the operation of all control procedures are clearly evidenced.

## **Internal Audit**

14. We concluded that Scottish Executive Audit Services complied with Government Internal Audit Standards in adopting a risk based audit approach in planning and undertaking their work. Therefore we are able to place reliance on the work of Audit Services for the purposes of our audit of the Scottish Executive.

## **Central financial systems**

15. We reviewed the key controls operating across the Scottish Executive's central financial systems. We concluded that controls and procedures were operating satisfactorily, enabling us to place reliance on them for the purposes of our audit.

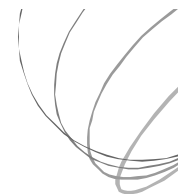


## **Management action**

16. An Action Plan has been prepared outlining the key recommendations following from our 2006/07 audit and the management response. We will follow up the Executive's progress in implementing agreed recommendations as part of our 2007/08 audit.

## **Acknowledgements**

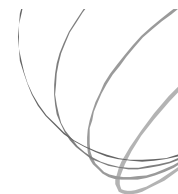
17. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers during the course of our audit work.



# Appendix A: Action Plan

| Action point                                      | Para No. | Issue  | Response and agreed action  |
|---|----------|--|---|
| <b>Fund balances</b>                              |          |  |   |
| 1   | 4        | A clear policy covering the nature of SCF balances held and how they may be utilised; and also covering the level of balances to be held should be developed.                        | All balances held by the SCF can only be used with permission of the Scottish Ministers and Parliament via the Scottish Budget.   |
| <b>Non-domestic rates</b>                         |          |  |   |
| 2   | 6        | The policy on accounting for NDR transactions within the Scottish Consolidated Fund should be re-considered as necessary in the light of any further review of the treatment of NDR. | Audit Scotland, Accountancy Services and the relevant Executive Department may be discussing further the accounting treatment of NDR, and we will consider the implications for the SCF accounts of any conclusions of that wider review. |
| <b>Crown Office and Procurator Fiscal Service</b> |          |  |   |
| 3   | 7        | COPFS should comply with the guidance when making surrenders to the SCF.   | We will write to COPFS and advise them again that they must complete the SCF1 form.   |
| <b>Corporate governance</b>                       |          |  |   |
| 4   | 13       | There is an apparent lack of evidence to substantiate the operation of certain procedures to identify, evaluate and manage significant risks.  | Accepted. We will review this process during the year.  |





# Appendix B: Independent auditor's report to the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of the Scottish Consolidated Fund for the year ended 31 March 2007 under section 19 of the Public Finance and Accountability (Scotland) Act 2000. These comprise the Receipts and Payments account, Statement of Balances and related notes. These financial statements have been prepared under the accounting policies set out within them

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members, in their individual capacities, or to third parties.

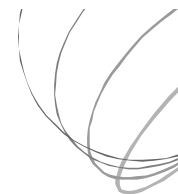
## **Respective responsibilities of the Accountable Officer and Auditor**

The Accountable Officer is responsible for the preparation of the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the directions made there-under by the Scottish Ministers and for ensuring the regularity of the receipts and payments. These responsibilities are set out in the Statement of Accountable Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report my opinion as to whether the financial statements properly present the receipts and payments, of Scottish Ministers in respect of the Scottish Consolidated Fund and the balance held, and are properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made there-under by the Scottish Ministers. I also report whether in all material respects

- the receipts and payments shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000



- the sums paid out of the Scottish Consolidated Fund were in accordance with section 65 of the Scotland Act 1998.

I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Scottish Executive Finance and Central Services Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding other transactions is not disclosed.

I review whether the Statement on Internal Control reflects compliance with Scottish Executive guidance. I report if, in my opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statements covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Scottish Executive's corporate governance procedures or its risk and control procedures.

## **Basis of audit opinion**

I conducted my audit in accordance with Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of receipts and payments included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Scottish Executive and the Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Scottish consolidated Fund circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the payments and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

### **Financial statements**

In my opinion:

- the financial statements properly present the receipts and payments of the Scottish Ministers in respect of the Scottish Consolidated Fund for the year ended 31 March 2007 and the balance held at that date



in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made there-under by the Scottish Ministers

- the financial statements have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made there-under by the Scottish Ministers.

## **Regularity**

In my opinion in all material respects:

- the receipts and payments shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000
- the sums paid out of the Scottish Consolidated Fund were in accordance with section 65 of the Scotland Act 1998.

**Bill Convery CPFA  
Assistant Director of Audit Services**

**Date: 30 November 2007**

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