

Scottish Government: Scottish Consolidated Fund

Report on the 2008/09 audit

October 2009



AUDIT SCOTLAND

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Executive Summary

Introduction

In 2008/09 we audited the financial statements of the Scottish Consolidated Fund and also reviewed aspects of governance. This report sets out our key findings.

Financial Statements

We have given an unqualified opinion on the financial statements of the Scottish Consolidated Fund for 2008/09. This means that, in our view, they properly present the receipts and payments of the Scottish Consolidated Fund and the balance held at 31 March 2009, and that they have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by Scottish Ministers.

Governance

Our overall conclusion is that the governance arrangements relevant to the operation of the Scottish Consolidated Fund were satisfactory during the period under review. This is reflected in the Statement on Internal Control and assurances provided to the Principal Accountable Officer.

Management Action

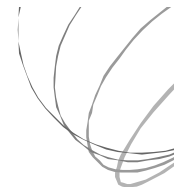
An Action Plan has been prepared outlining the key recommendations following from our 2008/09 audit and the management response. We will follow up progress in implementing agreed recommendations as part of our 2009/10 audit.

Acknowledgements

The assistance and co-operation given to us by officers during our audit is gratefully acknowledged.

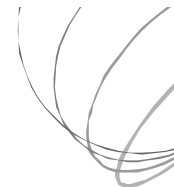


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Introduction

1. This report summarises the findings from our audit of the Scottish Consolidated Fund for the year to 31 March 2009. It covers the outcomes from our audit of the financial statements and aspects of governance.
2. Our responsibilities and approach are outlined in the Scottish Consolidated Fund Audit Plan for 2008/09. In summary, we audit the financial statements and give an opinion on:
 - whether they properly present the financial position of the Scottish Consolidated Fund and its receipts and payments for the period in question;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - the consistency of the information which comprises the Foreword with the financial statements; and
 - the regularity of the payments and receipts.
3. We also review the Statement on Internal Control by:
 - considering the adequacy of the process put in place by the Permanent Secretary as Principal Accountable Officer to obtain assurances on systems of internal control; and
 - assessing whether disclosures in the statement are consistent with our knowledge of the Scottish Consolidated Fund.
4. 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. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.



Financial Statements

Overall conclusion

5. We have given an unqualified opinion on the financial statements of the Scottish Consolidated Fund for 2008/09. This means that, in our view, they properly present the receipts and payments of the Scottish Consolidated Fund and the balance held at 31 March 2009, and that they have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by Scottish Ministers.

Financial Position

6. During the financial year the Scottish Consolidated Fund received receipts of £26,970 million, representing an increase of 1% on the prior year. Receipts from the Ministry of Justice under section 64(2) of the Scotland Act 1998 of £24,862 million, and from non-domestic rate income of £1,963 million, account for the significant majority of receipts. The Scottish Consolidated Fund made payments of £26,999 million, representing an increase of 1% on the prior year. Payments under Budget (Scotland) Act documents account for 99% of all payments made. At 31 March 2009 the Scottish Consolidated Fund reported a deficit of £29 million.
7. For a number of years the Fund has been carrying forward balances relating to NHS trust cash balances and the Queen's and Lord Treasurer's Remembrancer (QLTR). The balances on these have been applied this year to cover general cash payments from the Fund. The sums involved were £42 million in respect of NHS Trusts and £14 million in respect of QLTR. This has allowed these two lines in the accounts to be removed.
8. The balance held at year end with the Office of HM Paymaster General in relation to judicial salaries now stands at £13 m. This balance represents 44% of the total expenditure on judicial salaries within the financial year. The Scottish Government should monitor this balance with a view to reducing the amount held in subsequent years.

Action Point 1

International Standards on Auditing (ISA) 260

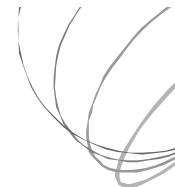
9. International Standard on Auditing (ISA) 260 requires auditors to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. ISA 260 requires us to highlight:
 - relationships that may bear on our independence and the integrity and objectivity of the appointed auditor and audit staff;



- the overall scope and approach to the audit, including any expected limitations, or additional requirements;
 - expected modifications to the audit report;
 - management representations requested by us;
 - unadjusted misstatements, other than those that are clearly trivial;
 - material weaknesses in internal control identified during the audit;
 - qualitative aspects of accounting practice and financial reporting, including accounting policies; and
 - matters specifically required by other auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.
10. This report sets out for the Principal Accountable Officer's consideration the matters arising from the audit of the financial statements for 2008/09 that require reporting under ISA 260 so that he can consider them before the financial statements are approved and certified. 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 Government in its administration of the Scottish Consolidated Fund and no responsibility to any third party is accepted.
11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Audit Plan for 2008/09, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in March 2007.
12. The accounts were signed by the Principal Accountable Officer on 22 September. On the same date, we received his written assurances on aspects of the accounts and judgements and estimates made in the form of a letter of representation under International Standards of Auditing 580. Bill Convery, as the appointed auditor, issued his audit report on 24 September.
13. There are no unadjusted misstatements and all other relevant issues that require to be brought to the attention of those charged with governance are included in this report.

Issues arising

14. The draft financial statements were provided to us in June, slightly later than planned, supported by a comprehensive working paper package. The good standard of supporting papers and the timely responses from Scottish Government finance staff allowed us to conclude our audit within the agreed timescale. However, a number of errors were identified in the first draft financial statements which are likely to have been identified and corrected if a more detailed review was performed prior to submission for audit.



Action Point 2

Regularity Assertion

15. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the payments and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Principal Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.



Governance

Overview of arrangements

16. Our overall conclusion is that the governance arrangements relevant to the operation of the Scottish Consolidated Fund were satisfactory during the period under review. This is reflected in the Statement on Internal Control and assurances provided to the Principal Accountable Officer.
17. As we highlighted last year, however, there is a lack of evidence to substantiate the operation of certain procedures to identify, evaluate and manage significant risks to the Scottish Consolidated Fund. We recommend that the operation of all control procedures is clearly evidenced.

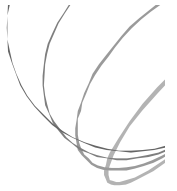
Action point 3

Systems of internal control

18. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. As part of our audit of the Scottish Government, we reviewed the key controls operating across central financial systems. We concluded that controls and procedures in these systems relevant to the operation of the Scottish Consolidated Fund were operating satisfactorily, enabling us to place reliance on them for the purposes of our audit.

Internal audit

19. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible. As part of our risk assessment and planning process for the 2008/09 audit we assessed whether we could place reliance on the Scottish Government's internal audit function, which covers the Scottish Consolidated Fund. We concluded that internal audit complied with Government Internal Audit Standards and that we were able to place reliance on their work for the purposes of our audit.

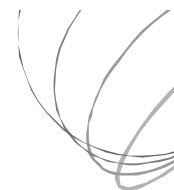


Management Action

20. An Action Plan has been prepared outlining the key recommendations following from our 2008/09 audit and the management response. We will follow up progress in implementing agreed recommendations as part of our 2009/10 audit.



October 2009



Appendix A: Action Plan

Action Point	Recommendation	Planned Action	Responsible Officer	Target Date
1.	Judicial Salary balance The year end balance held at the Office of HM Paymaster General has increased to £12.5m. This amount represents 44% of the total expenditure on judicial salaries during the financial year. We recommend that consideration is given to how the amounts held may be utilised and the level of balances to be held.	The balance was higher than expected due to the value of payments being made being less than expected during the year. We have put in place a system which will reduce and maintain a much lower balance.	Paul Robertson	31/03/2010
2.	Review of draft financial statements A number of errors were identified in the first draft financial statements received for audit. We recommend that a more detailed review of the draft financial statements is performed prior to submission for audit to identify and correct obvious errors.	The first draft of the document was still being checked when it was sent to you and several spelling errors were picked up which were also listed in your errors list. A number of the points listed were also preferences with only one significant difference in the figures for designated receipts.	Paul Robertson	31/03/2010
3.	Corporate governance The operation of all procedures to identify, evaluate and manage significant risks to the Scottish Consolidated Fund should be evidenced by, for example, preparing and regularly reviewing a separate risk register for the SCF.	We will give consideration to maintaining a separate risk register for the SCF.	Paul Robertson	31/12/2009



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 2009 under 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 or officers, in their individual capacities, or to third parties.

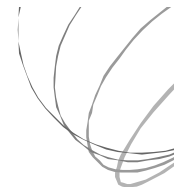
Respective responsibilities of the Accountable Officer and Auditor

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

My responsibility is to audit the financial statements in accordance with 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 to you 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 thereunder by the Scottish Ministers. I report to you whether, in my opinion, the information which comprises the Foreword is consistent with the financial statements. 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; and

- the sums paid out of the Scottish Consolidated Fund were in accordance with section 65 of the Scotland Act 1998.
- In addition, I report to you if, in my opinion, the Scottish Government Finance Directorate 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 Government guidance and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risks and controls or to form an opinion on the effectiveness of the Scottish Government's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with the 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 payments and receipts included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Scottish Government and the Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Scottish Consolidated Fund's circumstances, consistently applied and adequately disclosed.

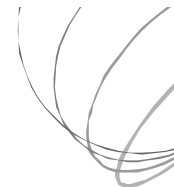
I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that 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, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the directions made thereunder by the Scottish Ministers, the receipts and



payments of the Scottish Ministers in respect of the Scottish Consolidated Fund for the year ended 31 March 2009 and the balance held at that date;

- the financial statements have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers
- information which comprises the Foreword is consistent with the financial statements.

Regularity

In my opinion 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, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Bill Convery CPFA
Assistant Director of Audit

Date:

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