

Scottish Government: Scottish Consolidated Fund

Report on the 2009/10 audit

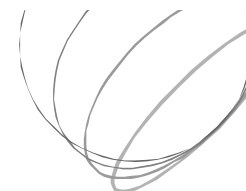
November 2010



AUDIT SCOTLAND

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Executive Summary

Introduction

In 2009/10 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 2009/10. 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 2010, 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

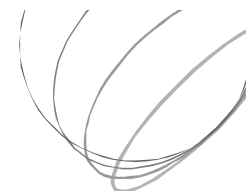
An Action Plan at Appendix 1 has been prepared outlining the key recommendations following from our 2009/10 audit and the management response. We will follow up progress in implementing agreed recommendations as part of our 2010/11 audit.

Acknowledgements

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

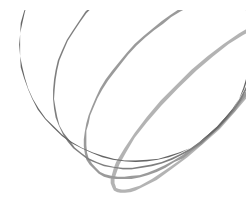


November 2010



Introduction

1. This report summarises the findings from our audit of the Scottish Consolidated Fund for the year to 31 March 2010. 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 2009/10. 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
 - 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
 - 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

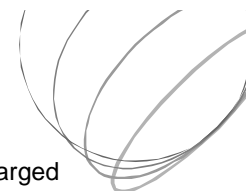
5. We have given an unqualified opinion on the financial statements of the Scottish Consolidated Fund for 2009/10. This means that, in our view, they properly present the receipts and payments of the Scottish Consolidated Fund and the balance held at 31 March 2010, and that they have been properly prepared 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 £31,196 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 £26,929 million, from non-domestic rate income of £2,165 million, and from NHS National Insurance contributions of £1,899 million account for the significant majority of receipts. The Scottish Consolidated Fund made payments of £31,029 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 2010 the Scottish Consolidated Fund reported a surplus of £167 million.
7. The balance held at year end with the Office of HM Paymaster General in relation to judicial salaries now stands at £1 million. This follows our recommendation in the previous year to reduce the balance to an appropriate level.

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 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



- 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.
9. 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.
 10. 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 2009/10, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in March 2007.
 11. The accounts were signed by the Principal Accountable Officer on 7 October. 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 7 October.
 12. 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.

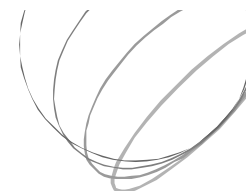
Issues arising

13. The draft financial statements were provided to us in June supported by a comprehensive working paper package.
14. We noted that due to staffing shortages within TBB, monthly reconciliations were not being undertaken between OPG statements and SEAS in relation to Judicial Salaries. A number of mis-posted transactions were found during our testing of judicial salaries. To allow early identification of erroneous transactions, reconciliations should be carried out on a regular basis.

Action Point 1

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. The Scottish Consolidated Fund is not discussed or monitored at any of the Audit Committees within the Scottish Government nor is there a separate risk register produced for the SCF. We recommend that clear lines of accountability are issued for the SCF including governance arrangements and identifying the Audit Committee to which it should report.

Action point 2

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 2009/10 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 2009/10 audit and the management response. We will follow up progress in implementing agreed recommendations as part of our 2010/11 audit.

