

# Scottish Consolidated Fund

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Government and the Auditor General for Scotland

March 2022

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# Key messages

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## **2020/21 audit of the Scottish Consolidated Fund**

In our opinion the financial statements of the Scottish Consolidated Fund (SCF) properly present the receipts into and payments out of the Fund for the year ended 31 March 2021.

The payments and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

The independent auditor's report on the 2020/21 Scottish Consolidated Fund accounts is unmodified.

## **Financial sustainability and governance**

The Scottish Government had effective overall management of the Scottish Consolidated Fund in 2020/21.

We concluded that the information in the Governance Statement is consistent with the financial statements and complies with the guidance issued by Scottish Ministers.

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# Introduction

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1. This report summarises the findings from our 2020/21 audit of the Scottish Consolidated Fund.
2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2021 meeting of the Scottish Government Audit and Assurance Committee. This report comprises the findings from:
  - an audit of the Scottish Consolidated Fund accounts
  - consideration of appropriateness of the disclosures in the governance statement and financial sustainability.

## Adding value through the audit

3. We add value to the Scottish Government through the audit by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the Scottish Government promote improved standards of financial reporting and governance.

## Responsibilities and reporting

4. Scottish Government officials have primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with the accounts direction from Scottish Ministers. Scottish Government officials are also responsible for compliance with legislation, putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
5. Our responsibilities as independent auditor are established by 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.
6. As public sector auditors we give independent opinions on the annual accounts and appropriateness of the governance statement disclosures. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
7. The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. As highlighted in our 2020/21 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2020/21 audit.

**8.** This report raises matters from our audit. The weaknesses or risks identified 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.

**9.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

## **Auditor Independence**

**10.** We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £23,990 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**11.** This report is addressed to the Scottish Government's Corporate 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.

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# Part 1: Audit of 2020/21 Scottish Consolidated Fund

The principal means of accounting for the stewardship of resources and performance

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## Main judgements

In our opinion the financial statements of the Scottish Consolidated Fund (SCF) properly present the receipts into and payments out of the Fund for the year ended 31 March 2021.

The payments and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

The independent auditor's report on the 2020/21 Scottish Consolidated Fund accounts is unmodified.

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## Our audit opinions on the Scottish Consolidated Fund accounts are unmodified

**12.** The accounts for the year ended 31 March 2021 were provided to the Scottish Government Audit and Assurance Committee (SGAAC) on 13 December 2021. As reported in the independent auditor's report:

- the financial statements properly present the receipts into and payments out of the Fund
- the governance statement was consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## The unaudited Scottish Consolidated Fund accounts were received in accordance the agreed timetable

**13.** We received the unaudited SCF accounts on 2 July 2021. We recommended in our 2019/20 Annual Audit Report that there should be a clear audit trail between the unaudited accounts and the supporting evidence. Our audit work noted that there was no working paper to show the audit trail between the annual accounts and the supporting documents. This resulted in the audit team spending a significant amount of time obtaining sufficiently detailed ledger reports, agreeing these to the accounts and matching transactions to supporting documentation in ERDM. [Action Point 1, Appendix 1.](#)

14. Our audit was completed remotely due to the ongoing restrictions as a result of the Covid-19 pandemic. We kept in regular communication with management which helped ensure the audit process ran smoothly.

### Overall materiality was £365,000

15. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

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#### Exhibit 1 Materiality values

Materiality level	Amount
<b>Planning materiality:</b> this is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at one per cent of judicial salaries (one of the key elements within the Scottish Consolidated Fund) for the year ended 31 March 2021.	£365,000
<b>Performance materiality:</b> 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 calculated performance materiality at 75% of planning materiality.  In practice, due to the nature of the account, we test all receipts and payments into and out of the fund, recognising that any payment that is not in accordance with applicable legislation would require us to report as part of our opinion on the financial statements.	£274,000
<b>Reporting threshold:</b> we are required to report to those charged with governance on all unadjusted misstatements.	n/a

Source: Audit Scotland

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### Appendix 2 identifies the main risks of material misstatement and our audit work to address these

16. [Appendix 2](#) provides our assessment of risks of material misstatement in the Scottish Consolidated Fund accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

### We have no significant findings to report on the accounts

17. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including

our view about the qualitative aspects of the body's accounting practices. We have no issues to report from the audit and there are no unadjusted errors to report.

### **Follow up of prior year recommendations**

**18.** The Scottish Government has made some progress in implementing our prior year audit recommendations. Details of our recommendations and Scottish Government's planned actions are included in [Appendix 1](#).



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# Part 2. Financial sustainability and Governance

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## Main judgements

The Scottish Government had effective overall management of the SCF in 2020/21.

We concluded that the information in the governance statement is consistent with the financial statements and complies with the guidance issued by Scottish Ministers.

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## Financial Performance in 2020/21

**19.** The Scottish Consolidated Fund 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.

**20.** 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.

**21.** The receipts paid into the SCF during the year totalled £55,790 million with payments made from the SCF of £55,725 million. This resulted in a surplus of £65 million (deficit of £43 million in 2019/20). The cash reserve balance at 31 March 2021 increased from £223 million to £287 million.

**22.** 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.

**23.** In 2020/21 the SCF received funding from this source of £31,948 million, which was within the amount stated in the 2020/21 UK Supplementary Estimate. The limit is set by forecasting the cash requirement for the 2020/21 Scottish Budget. Drawing down more or less than the limit has no effect on the overall spending power of the Scottish Government and the wider Scottish Administration.

**24.** 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 are assigned to the Scottish Administration and paid into the Scottish

Consolidated Fund. Receipts from Scottish Income Tax of £11,424 million were paid into the SCF in 2020/21 (2019/20: £11,684 million).

**25.** The total amount of devolved tax receipts (Land and Building Transaction Tax and Scottish Landfill tax) paid into the SCF in 2020/21 was £606.8 million (£724.6 million in 2019/21). Further detail is published in a separate Devolved Taxes account, which is produced by Revenue Scotland and audited separately.

**26.** Non-Domestic Rates (NDR) income collected by councils is paid into the fund, before being passed on to the Scottish Government for redistribution as local government funding. Further detail on NDR Income is published in the Scottish Government's Non-Domestic Rating Account, which is audited separately. Receipts from NDR paid into the fund in 2020/21 were £1,868 million.

**27.** In addition to these NDR receipts in 2020/21, some businesses voluntarily repaid some or all of their non-domestic rates relief provided by Scottish local authorities as part of the Covid-19 response. Voluntary repayments of £125.1 million were made into the Fund during 2020/21 (2019/20 nil).

**28.** The Queen's and Lord Treasurer's Remembrancer (QLTR) collects the unclaimed sums arising from personal estates and sequestrated companies and after a set period pays them over to the SCF. Receipts of £4.6 million from the QLTR were included in the 2020/21 fund. QLTR accounts are also audited separately.

**29.** 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.

**30.** In addition, due to the scale and timing of Covid-19 funding changes between the Main Estimate and Supplementary Estimate, a short-term advance from the UK Contingencies Fund was required to cover the Scottish Government's cash requirements. Funding of £3.5 billion was received on 1 March 2021 and subsequently repaid on 24 March 2021.

## Financial Sustainability

**31.** 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.

**32.** At the end of 2020/21, the SCF recorded a surplus of receipts over payments of £65 million.

**33.** The Statement of Balances shows cash held and debt held. A cash reserve is held in the SCF general reserve to manage surpluses or deficits. At 31 March 2021 the balance was £287.3 million (£222.7 million in 2019/20).

**34.** The Statement of Balances also shows borrowing outstanding by Scottish Ministers. The amount of net borrowing as at 31 March 2021 was £1,429 million (£1,074 million in 2019/20). This includes £407 million borrowed during 2020/21.

**35.** In 2020/21, resource borrowing was used in addition to capital borrowing for the first time. As at 31 March 2021, the principal amount outstanding was £207 million in respect of the resource borrowing. The remaining principal to be repaid is in relation to capital borrowing amounted to £1,220 million. Note 5 in the accounts provides further information.

**36.** In our 2019/20 Annual Audit Report, we recommended that the Scottish Government should review their borrowing disclosures as the level and complexity of borrowing increases. It is important that borrowing levels, sources, payments and liabilities are clearly and comprehensively reported in an annual report and accounts. While disclosure of borrowings continues to improve, 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. [Action Point 2, Appendix 1](#)

**37.** In January 2021, the Scottish Government published its third medium term financial strategy, [Scotland's Fiscal Outlook](#). The document provides information and scenarios about Scottish Government funding expectations for the next five years and outlines the Scottish Government's broad approach to spending.

## 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 Scottish Consolidated Fund itself sits outside the Scottish Government's internal governance arrangements, the operation of the Fund is carried out within Scottish Government Finance. The Fund is therefore 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 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 2020/21 accounts of the SCF complies with the minimum SPFM requirements.

**41.** We concluded that the information in the governance statement is consistent with the financial statements and 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 and matters.

## Systems of Internal Control

**42.** As part of our audit, we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of 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.

**43.** The Scottish Consolidated Fund is subject to the same controls that apply to the Scottish Government therefore for this audit we could place reliance on our findings from our Management (interim) Report. 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 2020/21

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Audit trail: annual accounts to supporting evidence</b></p> <p>There was no clear audit trail linking the unaudited accounts to supporting evidence. This resulted in a significant amount of time spent by the audit team obtaining sufficiently detailed ledger reports, agreeing these to the accounts and matching transactions to supporting documentation in ERDM.</p> <p>Risk: Good practice supports a clear audit trail between draft accounts and supporting evidence. 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>The difficulties experienced working remotely during the Covid-19 pandemic has underlined the importance of a clear audit trail linking supporting documents to annual accounts.</p> <p>To facilitate an efficient audit process there should be a clear audit trail linking the annual accounts to the electronic supporting documents.</p> <p>This action point was also raised as part of the 2019/20 audit.</p> <p><a href="#">Paragraph 13</a></p>	<p>Remote working has necessitated the change to electronic records maintained on eRDM, the Scottish Government's document management system, rather than the previous largely paper-based records. Records maintained on eRDM reflect the way the revised processes operate, and cannot exactly replicate the previous arrangements.</p> <p>Agreed that a monthly transaction report linking each transaction with the eRDM reference(s) of supporting documentation will be maintained.</p> <p><b>Responsible officer:</b> Head of Treasury and Banking</p> <p><b>Agreed date:</b> March 2022</p>
<p><b>2. Capital Borrowing</b></p> <p>The liability to repay capital and revenue borrowing is not recognised in the SCF accounts as it is a receipts and payment account under the Public Finance and Accountability Act (Scotland) 2000. An interim measure of additional disclosures in the form of a Statement of Balances was agreed to show debt and cash held and</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>This action point was also raised as part of the 2019/20 audit.</p> <p><a href="#">Paragraph 36</a></p>	<p>We acknowledge Audit Scotland's comment that disclosure of borrowing continues to improve. We consider the current level of reporting in annual accounts and in fiscal publications to be appropriate, given the complexity of the NLF loans, but would be happy to discuss this further with Audit Scotland should the position become more complex.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>in 2020/21 an additional table was added to the borrowing note to show the split between capital and resource borrowing. This details the principal borrowed and principal outstanding for each year since 2017/18.</p> <p>There remains a risk that current financial reporting structures are not sufficient to transparently report the assets and liabilities that arise from the Scottish Government's use of its borrowing powers. This will become more acute as borrowing levels and sources, interest payments and repayments become more complex.</p>		<p><b>Responsible officer:</b> Deputy Director, Financial Management Directorate</p> <p><b>Agreed date:</b> March 2022</p>

# Appendix 2. Significant audit risks

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.

## Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Detailed testing of journal entries.</p> <p>Testing of all transactions.</p> <p>Review any drawdowns made on the contingency fund.</p>	<p>We tested all receipts and payments into and out of the fund and found no evidence of management override of controls.</p> <p>Satisfactory</p>
<p><b>2. Working Papers</b></p> <p>We reported in our 2019/20 Annual Audit Report that the working papers submitted did not provide sufficient audit evidence for SCF transactions nor was there a clear audit trail between the electronic records management system (ERDM) and the unaudited accounts.</p> <p>Management agreed to consider the transfer of files to electronic format and confirmed that the audit trail would be improved.</p> <p>There remains the risk that the working papers and audit</p>	<p>Review of working papers and audit trail during our final accounts work.</p>	<p>We considered the adequacy of working papers and audit trail during our final accounts work.</p> <p>See Appendix 1, Action Point 2</p>

Audit risk	Assurance procedure	Results and conclusions
trail will be insufficient, resulting in delays to the certification process.		

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# Scottish Consolidated Fund

## 2020/21 Annual Audit Report

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