

Scottish Consolidated Fund

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Government and the Auditor General for Scotland
October 2024

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Key messages

2023/24 Scottish Consolidated Fund

- 1 Audit opinions on the 2023/24 Scottish Consolidated Fund accounts are unmodified.
- 2 There was one payment of £0.7 million which did not have a credit granted by the Auditor General in accordance with Section 5 (1) of The Public Finance and Accountability (Scotland) Act 2000. This payment was not in accordance with the legislation, but was not material and therefore there is no impact on the audit opinion.

Financial sustainability and governance

- 3 The surplus for the year increases the cash balance to £220 million. We are content that the Scottish Consolidated Fund has arrangements in place to manage the overall cash position.
- 4 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 2023/24 annual audit of the Scottish Consolidated Fund (SCF). It 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 an Annual Audit Plan presented to the March 2024 meeting of the Scottish Government Audit and Assurance Committee. This Annual Audit Report comprises significant matters arising from an audit of the 2023/24 SCF Accounts alongside conclusions on financial sustainability and governance as required by the [Code of Audit Practice 2021](#).
3. 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 remainder 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. My responsibilities as the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK (ISAs).
6. This report contains an agreed action plan at [Appendix 1](#). The weaknesses or risks identified in this report are only those which have come to the attention of the audit team 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. I can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. I can also confirm that we have not undertaken any non-audit related services and therefore the audit fee of £26,030 as set out in my 2023/24 Annual Audit Plan remains unchanged. I am not aware of any relationships that could compromise our objectivity and independence.

Part 1. Audit of 2023/24 annual report and accounts

Main judgements

Audit opinions on the 2023/24 Scottish Consolidated Fund accounts are unmodified.

There was one payment of £0.7 million which did not have a credit granted by the Auditor General in accordance with Section 5 (1) of The Public Finance and Accountability (Scotland) Act 2000. This payment was not in accordance with the legislation, but was not material and therefore there is no impact on the audit opinion.

The Independent Auditor's Report is unqualified

8. The SCF Accounts for the year ended 31 March 2024 were presented to the Scottish Government Audit and Assurance Committee on 7 October 2024. 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 2024 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 issued by the Scottish Ministers
- the information given in the Foreword and Governance Statement is consistent with the financial statements and has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. There are no matters which I am required by the Auditor General to report by exception.

Overall materiality was assessed as £780,000

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

Exhibit 1

Materiality values

Materiality level	Planning	Final
Overall materiality	£750,000	£780,000
Performance materiality	£560,000	£585,000
Reporting threshold	N/A	N/A

Source: Audit Scotland

11. Overall materiality is the figure we calculate to assess the impact of potential misstatements on the SCF Accounts. It was set with reference to judicial salaries, at 2 per cent, which I judged as the figure most relevant to the users of the financial statements.

12. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Using our professional judgement, we have assessed performance materiality at 75 per cent of planning materiality.

13. It is my responsibility to request that all misstatements are corrected. The final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

14. Under ISA (UK) 260, I communicate significant findings from the audit to the Scottish Government Audit and Assurance Committee, including my view about the qualitative aspects of the body's accounting practices.

15. The Code of Audit Practice also requires me to highlight key audit matters which are defined in ISA (UK) 701 are those matters judged to be of most significance.

16. 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. Payment made to the Scottish Government without appropriate authorisation</p> <p>Note 16 of the SCF Accounts refers to payments authorised under the Budget Act. All payments made under this Act, require to be authorised by the Auditor General for Scotland (Section 5 (1) of The Public Finance and Accountability (Scotland) Act 2000).</p> <p>A transfer of funds was made from the SCF (£0.688 million) to the Scottish Government in June 2023 without the required approval. This arose because of a misunderstanding over the applicability of an existing approval, following engagement with the Audit Scotland finance team.</p> <p>This payment is not in accordance with the legislation.</p>	<p>There is no impact on the audit opinion as the payment is not material.</p> <p>The Scottish Government should clarify arrangements with Audit Scotland, in relation to the Comptroller function, to ensure all payments comply with legislation.</p> <p>Recommendation 1</p>
<p>2. Payments authorised under the Budget Act</p> <p>In the SCF Accounts originally provided for audit, Note 16 disclosed that the cash transferred to the Scottish Government in respect of the Scottish Administration was in excess of that permitted by the Spring Budget revision.</p> <p>We discussed the presentation of the information and agreed that the notional adjustment of Non-Domestic Rates (NDR) payments should be recorded separately and that a better representation of the actual cash transferred should be disclosed.</p>	<p>We reviewed and agreed the revised presentation of Note 16 in the SCF Accounts to accurately reflect the cash transferred in respect of payments made under the Budget Act.</p> <p>The Scottish Government should review the accounting and disclosures made in the SCF Accounts to reflect actual cash transactions.</p> <p>Recommendation 2</p>
<p>3. Contingency Fund receipt and repayment</p> <p>Note 12 of the SCF Accounts refers to receipts from, and payments to, the UK Contingencies Fund. In March 2024, the SCF received temporary funding of £704 million to fund the Scottish Government's temporary cash shortfall. This funding is processed via the Scotland Office.</p> <p>The receipt from UK Contingencies Fund, and transmission to the Scottish Government, was processed appropriately. However the repayment</p>	<p>We reviewed and agreed the revised presentation of Note 12 in the SCF Accounts to disclose the receipts from, and payments to, the UK Contingencies Fund.</p> <p>The Scottish Government should review the accounting and disclosures made in the annual accounts and discuss these processes with the</p>

Issue	Resolution
<p>to the Contingencies Fund was processed by the Scotland Office independently of, and in advance of transferring funding to the SCF. As a consequence, an adjustment was processed to reflect the repayment from the Scottish Government and then onwards repayment to the Scotland Office.</p> <p>We discussed the accounting and presentation around this transaction and agreed that further narrative would be provided.</p>	<p>relevant parties (Scotland Office, Scottish Government).</p> <p>Recommendation 3</p>
<p>4. Adequacy of working papers to support the accounts</p> <p>We continue to note improvements to the working papers which support the SCF Accounts. There remains scope for further improvement, in particular the production of a full and clear reconciliation between the unaudited accounts, the bank statements and the supporting journal entries which produce the SCF Accounts.</p>	<p>The Head of Treasury and Banking has agreed to continue to review the back up and tracker document provided in support of the SCF Accounts.</p> <p>Recommendation 4</p>

Source: Audit Scotland

Audit responded to the risk of material misstatement identified

17. [Exhibit 3](#) sets out the significant risk of material misstatement identified in my 2023/24 Annual Audit Plan, the further audit procedures performed to obtain assurances and the conclusions from the work completed.

Exhibit 3

Identified Significant risks of material misstatement in the annual report and accounts

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 position to perpetrate fraud because of management's ability to</p>	<ul style="list-style-type: none"> • Enquire about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journal entries and other adjustments during the period. 	<p>We identified an issue in relation to the Auditor General approval of requisitions.</p> <p>(Exhibit 2, point 1)</p> <p>Audit testing did not identify any other issues and we found no evidence of</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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"> • Evaluate significant transactions outside the normal course of business. • Substantive testing of receipts and payments transactions. • Review any drawdowns made on the contingency fund 	<p>management override of controls.</p>

Source: Audit Scotland

Some progress was made on prior year recommendations

18. The Scottish Government has made some progress on addressing the prior year audit recommendations as detailed in [Appendix 1](#).

Part 2. Financial sustainability and governance

Conclusion

The surplus for the year increases the cash balance to £220 million. We are content that the Scottish Consolidated Fund has arrangements in place to manage the overall cash position.

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

There was an in-year surplus of £23 million

19. 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.

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 SCF. A number of other receipts are also paid into the SCF, 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 £54,693 million with payments made from the SCF of £54,670 million. This resulted in a surplus of £23 million in 2023/24 (deficit of £8 million in 2022/23). The cash reserve balance therefore increased from £197 million to £220 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 2023/24, the SCF received funding from this source of £30,564 million, which was within the amount stated in the 2023/24 UK Supplementary Estimate. The limit is set by forecasting the cash requirement for the 2023/24 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.

24. A short-term advance was required from the UK Contingencies Fund based on the forecast funding required in March 2024 over the remaining available cash funding limit for Scotland. Funding of £704 million was received on 1 March 2024 and subsequently repaid on 25 March 2024. As noted in [Exhibit 2, point 3](#), while the original advance was processed correctly, the repayment was made directly from the Office of the Secretary of State for Scotland. A notional adjustment was later processed by the Scottish Government to reflect the correct accounting.

25. The governance statement refers to the Scottish Government Audit and Assurance Committee's (SGAAC) role in relation to the SCF. 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 are aware that the role of SGAAC in relation to the SCF is currently being formalised.

26. 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 2023/24 this amounted to £15,393 million (£13,820 million in 2022/23). The total amount of devolved tax receipts (Land and Building Transaction Tax and Scottish Landfill Tax) paid into the SCF in 2023/24 was £878 million (£955 million in 2022/23). Further detail is published in a separate Devolved Taxes account, which is produced by Revenue Scotland and audited separately.

27. 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. Notional receipts and payment are recorded in notes 4 and 16 of the financial statements. In addition in 2023/24, some businesses voluntarily repaid some or all of the NDR relief provided as part of the Covid-19 response. Voluntary repayments of £26,000 were made into the SCF during 2023/24 (£181,000 in 2022/23). Further detail on NDR income is published in the Scottish Government's Non-Domestic Rating Account, which is audited separately.

28. 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 2023/24 was £20 million (£121 million in 2022/23). In 2022/23 Scotwind revenues (£103 million) were transferred while none were transferred in 2023/24.

29. The King's and Lord Treasurer's Remembrance (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 £171,000 from the KLTR were included in the 2023/24 fund (£5 million in 2022/23). The accumulated balance was transferred in 2022/23 accounting for the significant difference between years. KLTR accounts are audited separately.

30. 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.

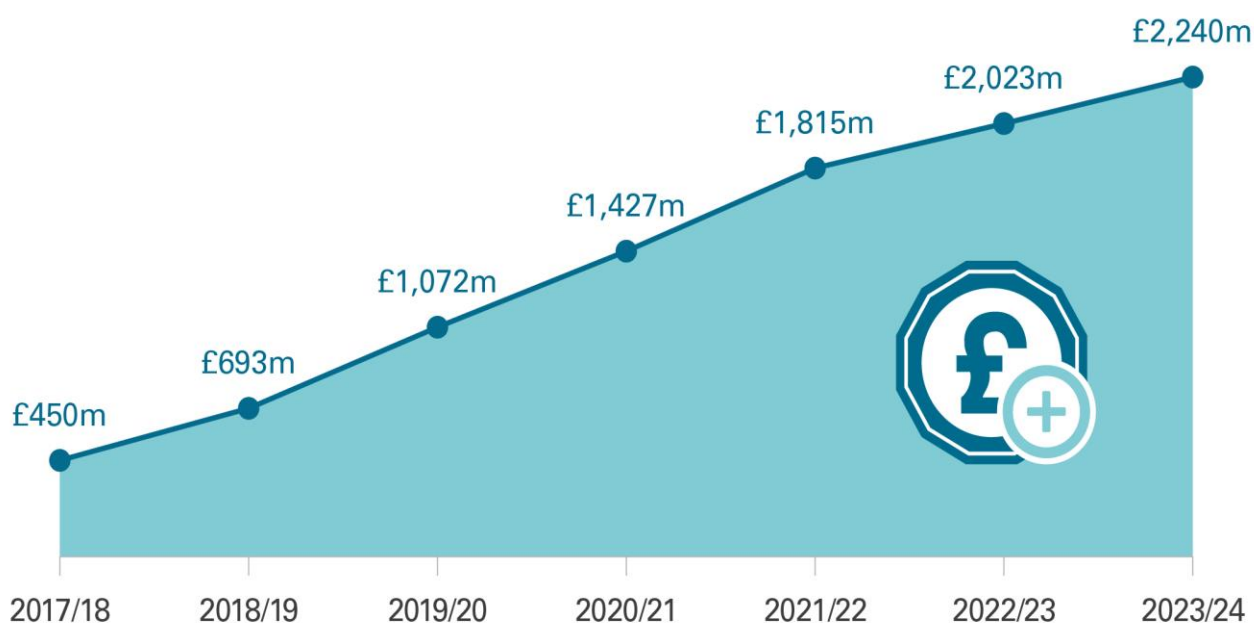
Borrowing by Scottish Ministers continues to increase

31. Under section 32 of the Scotland Act 2012, as amended by Scotland Act 2016 section 20, additional borrowing powers were conferred on Scottish Ministers with effect from 1 April 2015. Any sums borrowed and repaid under these provisions must be done via the SCF.

32. The first sums borrowed from the National Loan Fund were received by the SCF in 2017/18. Since then, resource and capital borrowing has continued with £404 million in new borrowing taken out during 2023/24. As at 31 March 2024, the SCF Accounts discloses an outstanding balance of £2.2 billion (principal and accrued interest). Annual loan repayments are therefore increasing; with an increase of £57 million experienced between 2022/23 and 2023/24. This financial pressure will need to be managed in the years ahead.

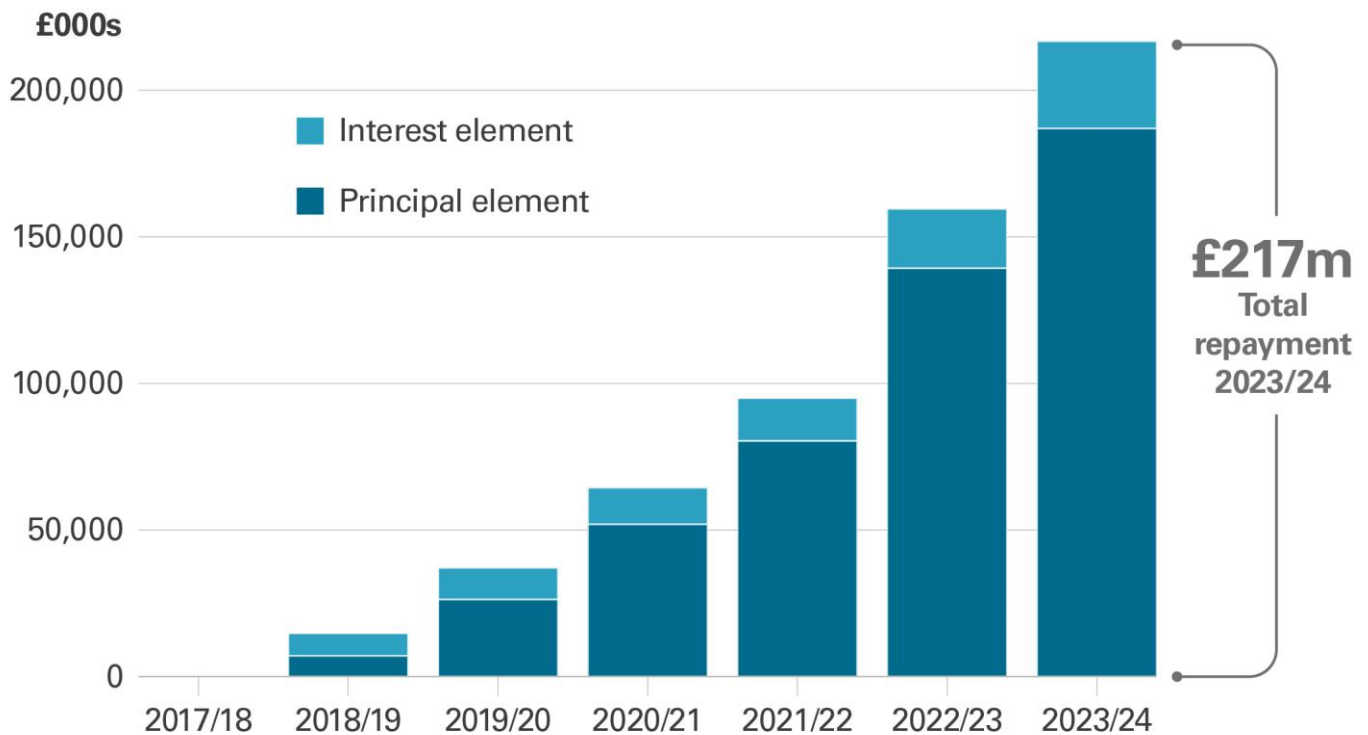
33. The growth in outstanding principal (capital and resource) for each year can be seen in [Exhibit 4](#). The increase in interest and repayment amounts since 2017/18 can be seen in [Exhibit 5](#).

Exhibit 4 Outstanding principal at year end



Source: Audit Scotland and analysis of Scottish Consolidated Fund Accounts

Exhibit 5
Repayments of principal and interest since 2017/18



Source: Audit Scotland and analysis of Scottish Consolidated Fund Accounts

The SCF has arrangements in place to manage the overall cash position

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. As noted above, at the end of 2023/24, the SCF recorded an excess of receipts over payments of £23 million (in 2022/23 there was an excess of payments over receipts of £8 million).

36. The Statement of Balances shows the movement and year-end position of both cash and borrowing. At 31 March 2024, the cash balance was £220 million (£197 million in 2022/23) and the net borrowing was £2,245 million (£2,026 million in 2022/23).

The Governance Statement complies with guidance

37. Under the UK Government’s Financial Reporting Manual (FRoM), 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.

38. Although the SCF 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'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.

39. 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 2023/24 accounts of the SCF complies with the minimum SPFM requirements.

40. 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.

41. There continues to be scope to further develop the governance statement by referring those corporate risks which could impact on the operation of the SCF. For example, this could include reference to cyber and general IT risks and staff capacity.

Recommendation 5

The Scottish Government should continue to develop the governance statement to reflect corporate risks which could affect the operation of the SCF.

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 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.

43. 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 2024. 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 2023/24

2023/24 recommendations

Issue / risk	Recommendation	Agreed management action/timing
<p>1. Payment made without Auditor General authorisation</p> <p>All payments made under the Budget Act require to be authorised by the Auditor General for Scotland.</p> <p>Following engagement with the Audit Scotland finance team a transfer of funds was made from the SCF (£0.688 million) to the Scottish Government in June 2023 without the required approval.</p> <p>There is a risk that payments are not in accordance with the legislation.</p>	<p>The Scottish Government should clarify arrangements with Audit Scotland, in relation to the Comptroller function, to ensure all payments comply with legislation.</p> <p>Exhibit 2, point 1</p>	<p>Accepted</p> <p>Scottish Government will arrange a session with Audit Scotland to improve collaboration and to better understand issues relevant to both parties in relation to the SCF.</p> <p>Head of Treasury and Banking 1 December 2024</p>
<p>2. Payments authorised under the Budget Act</p> <p>The unaudited SCF Accounts showed the cash transferred to the Scottish Government in respect of the Scottish Administration was in excess of that permitted by the Spring Budget revision. This arose from the inclusion of notional NDR payments.</p> <p>The presentation was subsequently revised to accurately disclose and reflect</p>	<p>The Scottish Government should review their processes and ensure reconciliation of all relevant balances. Processes should be discussed and clarified with the relevant parties.</p> <p>Exhibit 2, point 2</p>	<p>Accepted</p> <p>Scottish Government will review the presentation of Scottish Administration funding in the SCF accounts. The Scottish Government will also review the budget revision processes.</p> <p>Head of Treasury and Banking 31 May 2025</p>

Issue / risk	Recommendation	Agreed management action/timing
<p>the notional adjustments processed during the year.</p> <p>There is a risk that payments exceed those allowed resulting in a modification to the audit opinion.</p>		
<p>3. Contingency Fund transactions</p> <p>Note 12 of the SCF Accounts refers to receipts from, and payments to, the UK Contingencies Fund.</p> <p>The repayment to the Contingencies Fund was processed by the Scotland Office independently of, and in advance of transferring funding to the SCF. As a consequence, a correcting adjustment was processed to reflect the repayment from the Scottish Government and then onwards repayment to the Scotland Office.</p> <p>There is a risk that the accounts do not reflect the actual circumstances resulting in late adjustments.</p>	<p>The Scottish Government should review their processes and ensure reconciliation of all relevant balances. Processes should be discussed and clarified with the relevant parties.</p> <p>Exhibit 2, point 3</p>	<p>Accepted</p> <p>Scottish Government will revisit its own internal processes and will liaise with the Scotland Office and HM Treasury to ensure the need to record any notional transactions and/or correcting adjustment is kept to minimum and the annual accounts faithfully reflect the substance of transactions.</p> <p>Head of Treasury and Banking 1 February 2025</p>
<p>4. Adequacy of working papers to support the accounts</p> <p>There remains scope to further improve the audit evidence that supports the financial statements.</p> <p>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 reconciliation between the unaudited accounts, the bank statements, and the supporting journal entries, all linking to evidence.</p> <p>Exhibit 2, point 4</p>	<p>Partially accepted</p> <p>Whilst appreciating there is always scope for continuous improvement, Scottish Government has introduced several changes to its internal processes and data-keeping during 2023-24. These already include clear linking of all the bank transactions and ledger entries to underpinning evidence, additional reconciliations and additional controls.</p>

Issue / risk	Recommendation	Agreed management action/timing
		Head of Treasury & Banking 31 March 2025
<p>5. Governance Statement</p> <p>The governance statement should be reviewed to ensure it provides the reader with relevant information around those risks relevant to the SCF.</p> <p>There is a risk that the governance statement is misleading and does not include all relevant information.</p>	<p>The Scottish Government should continue to develop the governance statement to reflect corporate risks which could affect the operation of the SCF.</p> <p>Paragraph 41.</p>	<p>Accepted</p> <p>Scottish Government will continue to review the contents of the governance statement to reflect any new risks, responsibilities and arrangements.</p> <p>Head of Treasury and Banking 31 May 2025</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Progress
<p>b/f 1. Adequacy of working papers</p>	<p>There should be a clear audit trail linking the annual accounts to the electronic supporting documents.</p>	<p>Ongoing</p> <p>We acknowledge the improvements made to date but there remains scope for further improvement.</p> <p>Recommendation 3</p>
<p>b/f 2. Retained Monies</p>	<p>The Scottish Government should strengthen arrangements for the funding flows, including introducing more robust year end reconciliations.</p>	<p>Progressed</p> <p>SCF have introduced additional checks and procedures during the year to identify any miscodings.</p> <p>We have not identified any issues with retained monies during our testing in 2023/24.</p>
<p>b/f 3. Governance Statement</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>Ongoing</p> <p>There remains scope for further improvement.</p> <p>Recommendation 4</p>

Scottish Consolidated Fund

2023/24 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



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