

Scottish Consolidated Fund

Report on the 2007/08 Audit



September 2008



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Executive Summary

Introduction

In 2007/08 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 2007/08. 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 2008, 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.

We have, however, qualified our regularity opinion due to a breach of cash limits set out in the Budget (Scotland) Act 2007. Payments to the Food Standards Agency during the year exceeded its cash limit as set out in this Act by £50,000. Although the Agency repaid this amount in June 2008, without Budget Act approval the excess payment made during the year must be deemed irregular. We recommend that procedures are reviewed to ensure that a similar situation does not happen in the future.

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

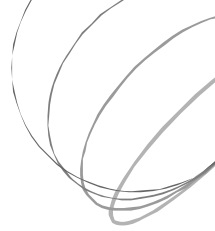
An Action Plan has been prepared outlining the key recommendations following from our 2007/08 audit and the management response. We will follow up progress in implementing agreed recommendations as part of our 2008/09 audit.

Acknowledgements

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



September 2008



Introduction

1. This report summarises the findings from our audit of the Scottish Consolidated Fund for the year to 31 March 2008. 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 2007/08. 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

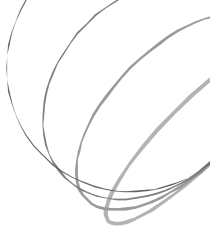
5. We have given an unqualified opinion on the financial statements of the Scottish Consolidated Fund for 2007/08. This means that, in our view, they properly present the receipts and payments of the Scottish Consolidated Fund and the balance held at 31 March 2008, and that they have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by Scottish Ministers.
6. We have, however, qualified our regularity opinion due to a breach of cash limits set out in the Budget (Scotland) Act 2007. The Budget (Scotland) Act 2007 prescribes, for the financial year 2007/08, cash limits on payments from the Scottish Consolidated Fund to certain bodies, including the Food Standards Agency (FSA) in respect of its activities in Scotland. As highlighted in note 2 to the financial statements, the payment to the FSA on 20 March 2008 resulted in a technical breach of their cash limit by £50,000. Although the FSA repaid the £50,000 in June 2008 and the sum involved is very small compared to total payments of £26,807 million out of the Scottish Consolidated Fund in 2007/08, without Budget Act approval the excess payment made in March must be deemed irregular.
7. The March payment to the FSA followed the required procedure for all payments from the Scottish Consolidated Fund, including the procedures of the Scottish Administration and authorisation by the Auditor General for Scotland. The error arose due to a failure to take proper account of the 2007/08 Spring Budget Revision, approved by the Scottish Parliament on 4 March 2008, which reduced the FSA's cash limit from £10,671,000 to £10,196,000. The final payment to FSA on 20 March was in line with the FSA request of 14 March which resulted in a total cash draw-down for the year of £10,246,000, £50,000 in excess of the revised limit. Within the Scottish Administration there was a breakdown in communication between the Finance Co-ordination Team (responsible for co-ordinating budget revisions) and the Financial Management Branch (responsible for passing on requests for funding to Audit Scotland, on behalf of the Auditor General, for approval). We recommend that procedures are reviewed to ensure that a similar situation does not happen again.

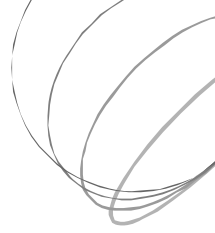
Action point 1

Financial Position

8. During the financial year the Scottish Consolidated Fund received receipts of £26,822 million, representing an increase of 12% on the prior year. Receipts from the Ministry of Justice under section 64(2) of the Scotland Act 1998 of £24,617 million, and from non-domestic rate income of £1,860 million, account for the significant majority of receipts. The Scottish Consolidated Fund made payments of £26,807 million, representing an increase of 9% on the prior year. Payments under

Budget (Scotland) Act documents account for 99% of all payments made. At 31 March 2008 the Scottish Consolidated Fund reported a relatively small surplus of £15 million.



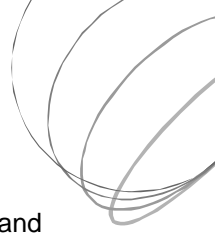


9. Two balances have been held by the Fund for a number of years. As at 31 March 2008 these amounted to £41.6 million for NHS trust cash balances and £13.5 million for the Queen's and Lord Treasurer's Remembrancer. In relation to the NHS trust balance, the then Scottish Executive agreed with the Treasury in 2001 that this cash surrendered to the Fund on the dissolution of trusts could be used to meet the costs of repayment of housing debt to a Council when it transferred its housing stock to community ownership. However, we are not aware of any immediate plans that this housing stock transfer will occur. Although all balances held by the Scottish Consolidated Fund can only be used with permission of the Scottish Ministers and Parliament through the Budget (Scotland) Act, we recommend that consideration is given to documenting a clear policy covering the nature of balances held, how they may be utilised and the level of balances held.

Action point 2

International Standards on Auditing (ISA) 260

10. 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.
11. This report sets out for the Principal Accountable Officer's consideration the matters arising from the audit of the financial statements for 2007/08 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.



12. 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 2007/08, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in March 2007.
13. The accounts were signed by the Principal Accountable Officer on 23 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. Fiona Kordiak, as the appointed auditor, issued her audit report on 24 September. As highlighted at paragraph 6 we have qualified our regularity opinion due to a breach of cash limits set out in the Budget (Scotland) Act 2007. The issued report is attached at Appendix B.
14. 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

15. The draft financial statements were provided to us in May as 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.
16. As reported last year, the Crown Office and Procurator Fiscal Service continue to utilise receivable orders when making surrenders to the Scottish Consolidated Fund. This approach does not comply with the applicable guidance which requires the use of a specific form (SCF1) for this purpose.

Action point 3

Regularity Assertion

17. 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. Other than the technical breach of the Budget (Scotland) Act 2007 highlighted earlier in this report, no significant issues were identified for disclosure.



Governance

Overview of arrangements

18. 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.
19. 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.

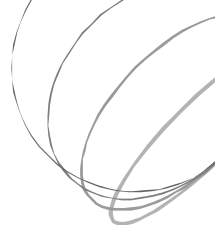
Action point 4

Systems of internal control

20. 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.
21. As outlined at paragraph 7 of this report, we recommend that controls over payments out of the Scottish Consolidated Fund are reviewed to ensure there is no breach of the Budget Act in future.

Internal audit

22. 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 2007/08 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.

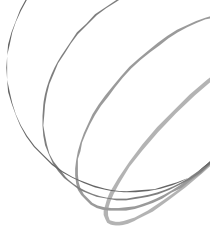


Management Action

23. An Action Plan has been prepared outlining the key recommendations following from our 2007/08 audit and the management response. We will follow up progress in implementing agreed recommendations as part of our 2008/09 audit.

Audit Scotland
September 2008

Appendix A: Action Plan



Action Point	Recommendation	Planned Action	Responsible Officer	Target Date
1.	<p>Payments from the Fund</p> <p>Controls over payments out of the Scottish Consolidated Fund should be reviewed to ensure there is no breach of the Budget Act in future.</p> <p>In particular, the Finance Co-ordination Team should ensure that changes made through budget revisions are communicated to the Financial Management Branch (FMB). The FMB should ensure that it maintains up-to-date records setting out the resource and cash limits of those bodies financed through the Scottish Consolidated Fund.</p>	<p>We accept that this should be done and will arrange with Finance Co-ordination to be copied into future changes.</p>	<p>Paul Robertson</p>	<p>December 2008</p>
2.	<p>Fund balances</p> <p>Although balances can only be used with permission of the Scottish Ministers and Parliament through the Budget (Scotland) Act, we recommend that consideration is given to documenting a clear policy covering the nature of balances held, how they may be utilised and the level of balances to be held.</p>	<p>We are at present reviewing draft desk instructions which will contain a sentence within setting out that the usable balance should where possible be kept below £100 million.</p> <p>As stated in the accounts, the Fund is not responsible for initiating payments into or out of the Fund.</p>	<p>Paul Robertson</p>	<p>December 2008</p>
3.	<p>Crown Office and Procurator Fiscal Service</p> <p>There should be further discussion with the Crown Office and Procurator Fiscal Service to ensure they follow required procedures when making surrenders to the Fund.</p>	<p>We have spoken to the Head of Finance within COPFS and will follow this up with a letter. All future receipts from COPFS which are submitted without a SCF1 will be returned.</p>	<p>Paul Robertson</p>	<p>Completed</p>
4.	<p>Corporate governance</p> <p>The operation of all procedures to identify, evaluate and manage significant risks to the Scottish Consolidated Fund should be evidenced.</p>	<p>This is presently being reviewed with a view to producing a risk register for the Scottish Consolidated Fund.</p>	<p>Paul Robertson</p>	<p>December 2008</p>



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 2008 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.

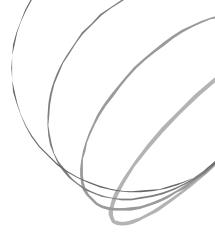
Respective responsibilities of the Accountable Officer and Auditor

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.

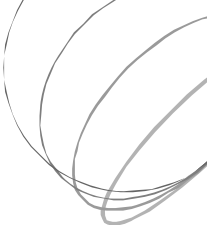
I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that 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 2008 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.

Qualified opinion on regularity

The Budget (Scotland) Act 2007 prescribes, for the financial year ended 31 March 2008, cash limits on payments from the Scottish Consolidated Fund to certain bodies, including the Food Standards Agency in respect of its activities in Scotland. As highlighted in note 2 to the financial statements, payments to the Food Standards Agency during the year exceeded its cash limit by £50,000. Although the Agency repaid this amount in June 2008, without Budget Act approval the excess payment made during the year must be deemed irregular.

In my opinion, except for the breach of the Budget (Scotland) Act 2007 referred to above, 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.

Fiona Kordiak CPFA, Director
Audit Scotland – Audit Services
Osborne House, 1/5 Osborne Terrace
Edinburgh, EH12 5HG

24 September 2008