# Scottish Consolidated Fund

# Annual report on the 2012/13 audit

AUDIT SCOTLAND

Prepared for Scottish Government and the Auditor General for Scotland

November 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds**.**

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# Key Messages

## 2012/13

We have issued a qualified auditors report on the 2012/13 Scottish Consolidated Fund (SCF) account. Our opinion on regularity was qualified on the grounds that a payment of £150,000 was made to Forestry Commission Scotland for which there was no credit granted by the Auditor General for Scotland. This payment was not, therefore, in accordance with the requirements of Section 65 of the Scotland Act 1998 or Sections 4 and 5 of the Public Finance and Accountability (Scotland) Act 2000.

Except for this payment, the sums paid out of the Fund were in accordance with the 1998 and 2000 acts in all material respects. Our auditors report was unqualified in all other respects.

In 2012/13, the Fund was within the cash drawdown limit as set by the UK Treasury by approximately £1 billion (4%).

The assurances gained from the audit of the Scottish Government's Consolidated Accounts for the year 2012/13 allowed us to conclude, overall, the Scottish Government's systems of internal control were operating effectively. Our audit highlighted a number of issues relating specifically to the internal controls governing the operation of the SCF. These included the need to ensure that AGS approval is confirmed in all relevant cases prior to the authorisation of payments.

Appendix A is an action plan setting out the high level risks we have identified from the audit. Officials have considered the issues and agreed to take the specific steps in the column headed "planned management action".

# Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of the Scottish Consolidated Fund (SCF) Account. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.

2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Scottish Government and no responsibility to any third party is accepted.

3. Appendix A is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Scottish Government understands its risks in relation to the SCF Account and has arrangements in place to manage these risks. The Principal Accountable Officer should ensure that he is satisfied with the proposed management action and has a mechanism in place to assess progress.

4. This report is also addressed to the Auditor General for Scotland and will be published on our website.

# Financial statements

## Conduct and scope of the audit

5. 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 Scottish Government Annual Audit Plan presented to the Scottish Government Audit and Risk Committee (SGARC) on 18 March 2013 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

## Audit opinion & accounting issues

7. We have given an unqualified opinion that the financial statements of the SCF Account for 2012/13 properly present the receipts and payments of the account for the year ended 31 March 2013 and the balances held at that date.

8. We have issued a qualified opinion on the regularity of the payments from the account. Our regularity opinion was qualified on the grounds that a payment of £150,000 made to Forestry Commission Scotland was not in accordance with statutory requirements as described in paragraphs 11 to 14 below. Except for this payment, payments from the Fund were in line with relevant legislation in all material respects.

9. The independent auditor's report was formally issued and signed on 31 October 2013.

10. We received the unaudited financial statements on 6 September 2013 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 4 October 2013. The financial reporting framework that has been applied in the preparation of these accounts is the receipts and payments basis and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

## Significant findings (ISA260)

11. During the course of the audit we identified an issue regarding the regularity of payments made out of the Fund and also in respect of the correct accounting for a receipt.

### Payment to Forestry Commission Scotland £150,000 on March 28th 2013

12. Section 65 of the Scotland Act 1998 requires that a sum may only be paid out of the Scottish Consolidated Fund if it is paid out in accordance with rules made by or under an Act of the

Scottish Parliament. Sections 4 and 5 of the Public Finance and Accountability (Scotland) Act 2000 require that no sum may be paid out of the Fund without a credit granted on the Fund by the Auditor General for Scotland.

13. The Budget (Scotland) Act 2012 Amendment Order 2013 was considered and approved by the Finance Committee of the Scottish Parliament on 13 March 2013. The Order provided Parliamentary authorisation for £150,000 of additional funding to Forestry Commission Scotland (FCS).

14. A payment of £150,000 was paid out of the Fund on 28 March 2013 to FCS. A credit was sought on 28 March in advance of the payment being made. The credit was subsequently refused on 9 April on the grounds that the Amendment Order did not come into force until 31 March and was not effective at the time of payment.

15. The payment was, therefore, made without a credit being granted. This meant that the amount was not paid out in accordance with legislative requirements. FCS subsequently repaid £150,000 to the Fund.

16. Our opinion on regularity was qualified in relation to this payment on the grounds that it did not comply with relevant legislation.

17. There is need for a review of the operational controls over the process in which credits will be sought from and approved by the AGS in the future. This will include informal discussion in relation to any unusual circumstances that emerge. Critically, the Scottish Government should ensure that controls are in place to confirm that the relevant credits have been obtained prior to making payments from the Fund.

**Refer action plan no. 1**

### Accounting for receipt

18. Forestry Commission Scotland returned its un-used cash balance to the Scottish Consolidated Fund six months after the end of each financial year. In 2011, £5.597 million was paid over to a Scottish Government bank account in error. When this was discovered in December 2012 the sum was paid into the Fund. The receipt was initially recorded in the SCF accounts by being offset by payments made to FCS in 2012/13. This had the effect of understating the reported FCS funding for the year, resulting in an inconsistency with the published FCS accounts. We requested an adjustment to the draft accounts for the amount to be disclosed as a receipt to ensure that both receipts and payments were reported gross.

19. The adjustment was made as requested increasing the total payments and total receipts figure by £5.597 million. There was no net effect on the deficit as at 31 March 2013.

## Financial position

### 2012/13 Outturn and financial position

20. The SCF reported a deficit of £18.752 million at the end of 2012/13. Receipts and payments during the year totalled £30.619 billion and £30.637 billion respectively. The year end deficit

of £18.752 million had the effect of decreasing the balance held with the Government Banking Service by 8% to a balance of £205 million as at 31 March 2013 compared to the balance of £224 million at 31 March 2012.

21. Payments authorised under the Budget (Scotland) Act account for 99% of all payments made from the fund. Contributions from the Scotland Office under section 64 (2) of the Scotland Act 1998 account for 85% of receipts. Other significant contributions came from Non Domestic Rates Income and National Insurance Contributions.

## Corporate governance and systems of internal control

### Overall governance arrangements

22. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Scottish Government had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance. This assurance was gained from our audit of the 2012/13 Scottish Government's Consolidated Accounts.

### SCF Procedural Instructions

23. During the course of our audit we identified that the procedural instructions used for the processing of payments and recording of receipts in the SCF during 2012/13 had not been updated since 2007 and did not cover all types of transactions relating to the fund. The Scottish Government should review its procedural instructions to ensure they remain appropriate.

**Refer action plan no.2**

### Judicial Salaries account control arrangements

24. As part of the established procedures, staff from Treasury & Banking Branch review receipts and payments made through the Judicial Salaries bank account and process the corresponding journals in the accounting system on a monthly basis. During the course of our audit we identified that this monthly control was not in operation. As a result journals covering the full financial year were not processed until June 2013.

25. The responsibility for making salary payments out of the judicial salaries bank account has been granted to a third party payroll provider. Payment amounts are authorised in advance by SG Judicial Salaries staff through the issue of payroll reports. There was no control in place during the 2012/13 financial year which reconciled actual payments made out of the bank by the payroll provider to the payment totals authorised as shown in the payroll reports. The Scottish Government should review its arrangements for the oversight of these payments.

**Refer action plan no. 3**

## Accounting and internal control systems

26. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

27. No material weaknesses in the accounting and internal control systems were identified during the audit of the Scottish Government's Consolidated Accounts which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the SCF Accounts.

28. Internal audit is an important element of the Scottish Government's governance structure. Our review of the Scottish Government Internal Audit Division (IAD) concluded that we could place reliance on their work. We have taken account of the work of IAD in respect of our audit of the Scottish Government generally but, because our approach to the SCF Account is wholly substantive in nature, there was no specific internal audit work on which we placed reliance.

## Prevention and detection of fraud and irregularity

29. In our Scottish Government Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the Scottish Government's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

## Standards of conduct and arrangements for the prevention and detection of corruption

30. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

## Acknowledgements

31. We would like to express our thanks to the staff of the Scottish Government for their help and assistance during the audit of this year’s SCF Account which has enabled us to provide an audit report within the agreed timetable.

# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|---|---|---|---|---|---|
| 1. | 17 | **Obtaining credits prior to payments from fund**<br>In 2012/13 a payment of £150,000 was made to the Forestry Commission without the required credit having been granted on the Fund by the Auditor General for Scotland (AGS).<br>There is need for the Scottish Government to review the operational controls over the process in which credits will be sought from and approved by the AGS in the future.<br>The Scottish Government should ensure that controls are in place to confirm that the relevant credits have been obtained prior to making payments from the Fund.<br>*Risk: There is a risk that all payments from the fund do not comply with legislative requirements.* | Procedures have been reviewed and controls enhanced to ensure that relevant credits are granted prior to payments being made by the Fund.<br>We have put in place additional controls around our Budget Revision process to ensure that the SSI coming into force date is part of the Budget Revisions plan and timetable<br>A meeting is scheduled with relevant finance staff within Audit Scotland to ensure arrangements covering all the operations are effective. | Head of Branch Treasury & Banking<br>Head of Finance-Coordination / Principal Accountancy Adviser | May 2013<br>December 2013 |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|---|---|---|---|---|---|
| 2. | 25 | **SCF Procedural Instructions**<br>The procedural instructions used for the processing of payments and recording of receipts on the SCF are not up to date.<br>*Risk: There is a risk that current guidance is not properly included within the procedural instructions.* | SCF procedural instructions have been reviewed. | Head of Branch Treasury & Banking | November 2013 |
| 3. | 27 | **Judicial salaries account control arrangements**<br>Journal entries were not processed until after the year end. In addition, no reconciliations were performed between the actual salary payments made and the totals authorised for payment.<br>*Risk: Failure to process journal entries and reconciliations on a timeous basis increases the risk any errors will remain undetected.* | Procedures will be reviewed and controls enhanced to ensure that actual salary payments are reconciled with the authorised salary payments. | Head of Branch Treasury & Banking | January 2014 |