

Report to those charged with governance on the 2013/14 audit

Audited Body:	Scottish Consolidated Fund
Date:	October 2014

Background

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the Principle Accountable Officer's consideration the matters arising from the audit of the financial statements for 2013/14 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. It should be noted that the audit opinion reflects recent discussions with management and is subject to satisfactory conclusion of any outstanding matters.
3. We also present for your consideration our draft annual report on the 2013/14 audit which identifies significant findings from the financial statements audit. This report is attached at Appendix C and will be issued in final form after the financial statements have been certified.

Status of the work

4. Our work on the financial statements is now complete. The issues arising from the audit were discussed with appropriate staff during the course of our fieldwork. The more significant issues arising were discussed with the Head of Treasury and Banking Branch on 26 September and 10 October 2014 respectively.
5. We received the unaudited financial statements on 1 September 2014, 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 19 September 2014.

Fraud

6. In presenting this report to the Principal Accountable Officer we seek confirmation from those charged with governance of any instances of fraud that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

Audit opinion and representations

7. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 28 October 2014 (the proposed report is attached at [Appendix A](#)). There are no anticipated modifications to the audit report.

8. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.
9. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. None of the changes had an impact on the figures for receipts and payments into and out of the fund.
10. We therefore have no unadjusted misstatements to bring to your attention.
11. As part of the completion of our audit we seek written assurances from the Principal Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Principal Accountable Officer with the signed financial statements prior to the independent auditor's opinion being certified.

Significant findings and key judgements

12. During the course of the audit we have identified a number of issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties. Paragraphs 24 - 31 headed 'significant findings' in the attached annual audit report set out the issues we regard as those to be reported.

APPENDIX A: Proposed Independent Auditor's Report

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 2014 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Receipts and Payments Account, and the related notes. The financial reporting framework that has been applied in their preparation is the receipts and payments basis.

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 125 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 Principal Accountable Officer and auditor

As explained more fully in the Statement of Accountable Officer's Responsibility, the Principal Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they properly present the receipts and payments for the financial year, and is also responsible for ensuring the regularity of the receipts and payments. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of receipts and payments in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Principal Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of receipts and payments. In addition, I read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by

me in the course of performing the audit. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- properly present in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers the receipts and payments of the account for the year ended 31 March 2014 and the balances held at that date; and
- have been properly prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

In my opinion in all material respects 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 and sections 4 to 6 of the Public Finance and Accountability (Scotland) Act 2000.

Opinion on other prescribed matters

In my opinion the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

Mark Taylor CPFA

Assistant Director

Audit Scotland

18 George Street

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28 October 2014

Appendix B: ISA 580 - Letter of Representation

Mark Taylor
Assistant Director
Audit Scotland
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Dear Mark

Scottish Government: Finance Directorate

Scottish Consolidated Fund (SCF) Account 2013/14

1. This representation letter is provided in connection with your audit of the Scottish Consolidated Fund Account for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements properly present the receipts and payments of the account for the year ended 31 March 2014 and the balances held at that date.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the appropriate staff, the following representations given to you in connection with your audit of the SCF Account for the year ended 31 March 2014.

General

3. I acknowledge my responsibility and that of the Scottish Government for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the SCF Account, including the Foreword, presents a balanced picture and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Regularity of Financial Transactions

6. I confirm that sums paid out of the Scottish Consolidated Fund were applied in accordance with the Scotland Act 1998 and the Public Finance and Accountability (Scotland) Act 2000.

Financial Reporting Framework

7. The financial statements have been prepared on a receipts and payments basis under Section 19 (2) of the Public Finance and Accountability (Scotland) Act 2000.
8. Disclosure has been made in the financial statements of all matters necessary for them to properly present the receipts and payments of the account for the year ended 31 March 2014 and the balances held at that date.

Events Subsequent to the Date of the Statement of Balances

9. Since the date of the Statement of Balances no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

10. I acknowledge as Principal Accountable Officer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
11. The corporate governance arrangements have been reviewed and the Governance Statement given by the Principal Accountable Officer for the accounts of the Scottish Consolidated Fund covers all of the receipts and payments relating to the SCF Account. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2014, which require disclosure.

Fraud

12. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Year End Balance

13. The statement of balances properly presents the balance at 31 March 2014. There are no plans or intentions that are likely to affect the carrying value of the balance at the year end.

Yours sincerely

Sir Peter Housden KCB

Principal Accountable Officer

Appendix C:

Scottish Consolidated Fund

Annual report on the 2013/14 audit



Prepared for Scottish Government and the Auditor General for Scotland
October 2014

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.

Contents

Key Messages	10
2013/14	10
Introduction.....	11
Financial statements	12
Conduct and scope of the audit.....	12
Audit opinion & accounting issues	12
Significant findings (ISA260)	12
Financial position	Error! Bookmark not defined.
Corporate governance and systems of internal control.....	13
Appendix A: Action Plan	16
Key Risk Areas and Planned Management Action	16

Key Messages

2013/14

We have issued an unqualified auditors report on the 2013/14 Scottish Consolidated Fund (SCF) account.

In 2013/14, the Fund was within the cash drawdown limit as set by the UK Treasury by approximately £835 million (3%).

The assurances gained from the audit of the Scottish Government's Consolidated Accounts for the year 2013/14 allowed us to conclude, overall, the Scottish Government's systems of internal control were operating effectively.

[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

14. This report is the summary of our findings arising from the 2013/14 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.
15. 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.
16. [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.
17. 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

18. 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 10 March 2014 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
19. 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 2013/14 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

20. We have given an unqualified opinion that the financial statements of the SCF Account for 2013/14 properly present the receipts and payments of the account for the year ended 31 March 2014 and the balances held at that date.
21. We have issued an unqualified opinion on the regularity of the payments from the account. Payments from the Fund were in line with relevant legislation in all material respects.
22. The independent auditor's report was formally issued and signed on 28 October 2014.
23. We received the unaudited financial statements on 1 September 2014 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 19 September 2014. 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)

Disclosure of balances within the SCF relating to Proceeds of Crime and QLTR receipts

24. Receipts classified as Proceeds of Crime are paid into the SCF by the Crown Office and Scottish Government Justice portfolio. Once a year a payment is made back to the Scottish Government to fund "Cashback for Communities" programmes. As the receipts and payments are not equal amounts, there remains a balance within the SCF at the year end. Prior year

disclosures relating to Proceeds of Crime did not include the year end balance. This issue was discussed with the Scottish Government and they agreed to enhance the disclosures.

25. The Queen's and Lord Treasurer's Remembrancer (QLTR) surrenders receipts to the SCF in line with the Scotland Act (1998). In the 2008/09 financial year, accumulated QLTR receipts to the value of £14 million were applied to fund payments under the Budget Act. Since then the accumulated value of QLTR receipts has risen to £25m. Following discussions during the course of the audit, Scottish Government agreed to disclose this balance in the SCF accounts.
26. The enhanced disclosures within the published SCF accounts are a welcome development. The Scottish Government do not have a clear process in place for applying the QLTR receipts against payments out of the fund. There is scope for this to be clarified going forward with the agreement of Her Majesty's Treasury. This will improve the operation of the fund and reduce the risk of unmonitored balances accumulating within the account.

Refer action plan no. 1

2013/14 Outturn and financial position

27. The SCF reported a surplus of £0.743 million at the end of 2013/14. Receipts and payments during the year totalled £31.555 billion and £31.554 billion respectively. The year end surplus of £0.743 million had the effect of increasing the balance held with the Government Banking Service to £206 million as at 31 March 2014 compared to the balance of £205 million at 31 March 2013.
28. 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 86% 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

29. 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 2013/14 Scottish Government's Consolidated Accounts.

Judicial Salaries account control arrangements

30. 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

2012/13 audit we identified that this monthly control was not in operation. We are pleased to report that this control was implemented timeously during the 2013/14 financial year

31. 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 is still scope for enhancing controls so that actual payments made out of the bank by the payroll provider are reconciled 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. 2

Accounting and internal control systems

32. 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.
33. 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.
34. 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

35. 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

36. 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

37. 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	Issue, risk and recommendation	Management action/response	Responsible Officer	Target Date
1.	26	<p>QLTR Receipts</p> <p>A balance of £25 million relating to accumulated QLTR receipts is included within the overall SCF balance.</p> <p>Risk</p> <p><i>There is a risk specific balances accumulate in the SCF and balances are left to build up.</i></p> <p>Recommendation</p> <p>Clear procedures should be in place detailing the appropriate treatment for the application of these receipts against payments. This should be agreed with HM Treasury.</p>	<p>Under the existing HM Treasury Consolidated Budgeting Guidance rules, there is no scope for the Scottish Government to utilise this balance to support DEL expenditure. The Scottish Government have agreed with HM Treasury to look at reducing the overall balance at the SCF, and the QLTR balance will be included in that review.</p>	Head of Treasury & Banking	Mar 2015
2.	31	<p>Judicial salaries account control arrangements</p> <p>Current control procedures do not include that a reconciliation is undertaken between the actual salary payments made and the payroll totals authorised for payment.</p> <p>Risk</p> <p><i>There is a risk that an erroneous or unauthorised payment made by the payroll operator will remain</i></p>	<p>Agreed - this will be raised with Courts, Judicial Appointments Policy and Central Authority Unit, the business area responsible for overseeing the operation of the Judicial Salaries Payroll.</p>	Head of Treasury & Banking	Nov 2014

Action Point	Refer Para No	Issue, risk and recommendation	Management action/response	Responsible Officer	Target Date
		<i>undetected.</i> Recommendation The Scottish Government should review its arrangements for the oversight of these payments			