

Scottish Consolidated Fund

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Government and the Auditor General for Scotland

February 2023

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Key messages

2021/22 audit of the Scottish Consolidated Fund

- 1** In our opinion the financial statements of the Scottish Consolidated Fund (SCF) properly present the receipts into and payments out of the Fund for the year ended 31 March 2022.
- 2** The payments and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 3** The independent auditor's report on the 2021/22 Scottish Consolidated Fund accounts is unmodified.

Financial sustainability and governance

- 4** The Scottish Government had effective overall management of the Scottish Consolidated Fund in 2021/22.
- 5** We concluded that the information in the Governance Statement is consistent with the financial statements and complies with the guidance issued by Scottish Ministers.

Introduction

1. This report summarises the findings from our 2021/22 audit of the Scottish Consolidated Fund.
2. The scope of our audit was set out in our 2021/22 Annual Audit Plan presented to the March 2022 meeting of the Scottish Government Audit and Assurance Committee. This report comprises the findings from:
 - an audit of the Scottish Consolidated Fund accounts
 - consideration of the appropriateness of the disclosures in the governance statement and financial sustainability.

Adding value through the audit

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

Responsibilities and reporting

4. Scottish Government officials have primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with the accounts direction from Scottish Ministers. Scottish Government officials are also responsible for compliance with legislation, putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK.

6. As public sector auditors we give independent opinions on the annual accounts and appropriateness of the governance statement disclosures. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

7. The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of less complex bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and financial sustainability. As highlighted in our 2021/22 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the less complex provisions of the Code to the 2021/22 audit.

8. This report highlights matters arising from our audit. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#), setting out specific recommendations, responsible officers, and dates for implementation.

Auditor independence

10. Auditors appointed by the Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £24,480 as set out in our 2021/22 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

12. This report is addressed to the Scottish Government's Corporate Board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Part 1. Audit of 2021/22 Scottish Consolidated Fund

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

Main judgements

In our opinion the financial statements of the Scottish Consolidated Fund (SCF) properly present the receipts into and payments out of the Fund for the year ended 31 March 2022

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

The independent auditor's report on the 2021/22 Scottish Consolidated Fund accounts is unmodified.

Our audit opinions on the Scottish Consolidated Fund accounts are unmodified

13. The accounts for the year ended 31 March 2022 were provided to the Scottish Government Audit and Assurance Committee (SGAAC) on 21 November 2022. As reported in the independent auditor's report:

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

The Scottish Consolidated Fund accounts were submitted for audit six weeks later than agreed

14. The unaudited annual accounts were not received in line with our agreed audit timetable on 30 June 2022. Due to changes in Scottish Government staff responsible for preparing the account, we did not receive the unaudited accounts and working papers until 19 August 2022.

15. The working papers provided to support the accounts were of an improved standard compared to prior years and the audit team received assistance from finance staff which supported the completion of the Financial Statements audit.

16. We reported in 2020/21 that there was no working paper to show the audit trail between the annual accounts and the supporting documents, which resulted

in the audit team spending a significant amount of time matching the transactions to the accounts. We are pleased to note the improvement in the audit trail but we have identified some areas for further improvement.

Overall materiality is £744,000

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

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality: this is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at two per cent of judicial salaries (one of the key elements within the Scottish Consolidated Fund) for the year ended 31 March 2022	£744,000
Performance materiality: this acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£558,000
Reporting threshold: we are required to report to those charged with governance on all unadjusted misstatements.	n/a

Source: Audit Scotland

18. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks. We also considered the low risk and level of error identified in previous years.

We have no significant findings to report on the annual accounts

19. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no significant issues to report from the audit and there are no unadjusted errors to report.

20. [Exhibit 2](#) sets out the significant risk of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the

further audit procedures we performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 2

Significant risk from the audit of the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of fraud caused by the 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 override controls that otherwise appear to be operating effectively.</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. • 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>We did not identify any issues as a result of our audit work that would indicate management override of controls affecting the year-end position.</p>

Source: Audit Scotland

Other areas of audit focus

21. We identified in our 2021/22 Annual Audit Plan one area where we considered there to be a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider this to represent a significant risk. The issue related to the absence of a clear audit trail linking the unaudited accounts to supporting evidence together with the related risk to business continuity due to the retirement of key Scottish Government staff.

22. As noted above, the change in personnel within the Treasury and Banking division had an adverse impact on the accounts preparation process and the receipt of timely responses to audit queries. In addition, while there has been an improvement in the standard of working papers, there remains scope for further improvements in this area, such as better signposting to the approvals for payments out of the Fund and better links from the financial statements to the supporting documents. ([Action Point 1, Appendix 1](#))

Some progress was made on prior year recommendations

23. The Scottish Government has made some progress in implementing our prior year audit recommendations. Both points raised in our 2020/21 annual audit report have been carried forward into 2021/22 with revised responses and timescales agreed with management. These are included in [Appendix 1](#).

Part 2. Financial sustainability and governance

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services

Main judgements

The Scottish Government had effective overall management of the SCF in 2021/22.

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

Financial performance in 2021/22

24. The Scottish Consolidated Fund receives a block grant from the UK's Consolidated Fund plus the operational receipts of the Scottish Government. Funding is drawn down by the Scottish Government from the SCF to support the spending plans approved by the Scottish Parliament in the annual Budget Act. The Fund operates under the Scotland Act 1998.

25. The SCF receives, from the Office of the Secretary of State for Scotland, sums which have been voted by the UK Parliament for the purpose of grant payable to the Fund. A number of other receipts are also paid into the Fund, including receipts from the collection of devolved taxes, national insurance contributions and Scottish income tax.

26. The receipts paid into the SCF during the year totalled £72,257 million with payments made from the SCF of £72,339 million. This resulted in a deficit of £83 million (surplus of £65 million in 2020/21). The cash reserve balance at 31 March 2022 decreased from £287 million to £205 million.

27. 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.

28. In 2021/22, the SCF received funding from this source of £31,479 million, which was within the amount stated in the 2021/22 UK Supplementary Estimate. The limit is set by forecasting the cash requirement for the 2021/22 Scottish Budget. Drawing down more or less than the limit has no effect on the overall spending power of the Scottish Government and the wider Scottish Administration.

29. Due to an error in the submission of the Central Government Supply Estimates, in which the income in respect of Scottish Income Tax was incorrectly deducted from the estimated cash requirement, an advance from the UK Contingencies Fund was necessary to cover the Scottish Government's cash requirements between November 2021 and March 2022. Funding of £12 billion was received on 1 November 2021 and subsequently repaid on 21 March 2022.

30. The governance statement refers to the Scottish Government Audit and Assurance Committee's (SGAAC) role in relation to the Fund. It notes that SGAAC is informed of any issues pertaining to the Fund, and therefore exercises some oversight of the Fund's operations. 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.

31. 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 Scottish Consolidated Fund. Receipts from Scottish Income Tax of £11,642 million were paid into the SCF in 2021/22 (2020/21: £11,424 million).

32. The total amount of devolved tax receipts (Land and Building Transaction Tax and Scottish Landfill Tax) paid into the SCF in 2021/22 was £874 million (£607 million in 2020/21). Further detail is published in a separate Devolved Taxes account, which is produced by Revenue Scotland and audited separately.

33. Non-Domestic Rates (NDR) income collected by councils is paid into the fund, before being passed on to the Scottish Government for redistribution as local government funding. Further detail on NDR Income is published in the Scottish Government's Non-Domestic Rating Account, which is audited separately. Receipts from NDR paid into the fund in 2021/22 were £2,090 million.

34. In addition to these NDR receipts in 2020/21, some businesses voluntarily repaid some or all of their non-domestic rates relief provided by Scottish local authorities as part of the Covid-19 response. Voluntary repayments of £1 million were made into the Fund during 2021/22 (£125 million in 2020/21).

35. The Electricity Act 1989, s33, entitles the Scottish Government to a share of the fossil fuel levy collected under the Act. The levy is collected by the regulator, OFGEM, and paid over to the SCF at irregular intervals. During 2021/22 the SCF received £43.7 million (£0 receipts in 20/21).

36. The King's and Lord Treasurer's Remembrancer (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 £7 million from the KLTR were included in the 2021/22 fund. KLTR accounts are also audited separately.

37. 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.

38. We identified some instances where receipts and payments were not explained in the notes to the Fund. In addition, further information could be provided, for example, in relation to the deficit, cash authorisation limits and the reserve balance. Additional disclosures would greatly improve the transparency and understanding of the accounts for the reader. ([Action Point 2, Appendix 1](#))

Financial Sustainability

39. 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.

40. At the end of 2021/22, the SCF recorded an excess of payments over receipts of £82.6 million.

41. The Statement of Balances shows cash held and debt held. A cash reserve is held in the SCF general reserve to manage surpluses or deficits. At 31 March 2022, the balance was £204.6 million (£287.3 million in 2020/21).

42. The Statement of Balances also shows borrowing outstanding by Scottish Ministers. The amount of net borrowing as at 31 March 2022 was £1,818 million (£1,429 million in 2020/21). This includes £469 million borrowed during 2021/22.

43. We have previously recommended that the Scottish Government should review their borrowing disclosures as the level and complexity of borrowing increases. It is important that borrowing levels, sources, payments and liabilities are clearly and comprehensively reported in an annual report and accounts. Borrowing continues to be taken from the National Loans Fund which is relatively straightforward. This will become increasingly important should the borrowing position become more complex. ([Action Point 3, Appendix 1](#)).

Governance Statement

44. Under the UK Government's Financial Reporting Manual (FReM), an annual governance statement must be included with the accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

45. Although the Scottish Consolidated Fund itself sits outside the Scottish Government's internal governance arrangements, the operation of the Fund is carried out within Scottish Government Finance. The Fund is therefore subject to the same controls and assurance procedures that apply to the Scottish Government. Our review of the governance statement assessed the assurances which are provided to the Scottish Government'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.

46. 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 2021/22 accounts of the SCF complies with the minimum SPFM requirements.

47. We concluded that the information in the governance statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers. Based on our knowledge and work performed, we concluded that the statement presents an appropriate assessment of governance arrangements.

48. We identified some disclosures which could enhance the governance statement. These related to a number of Scottish Government corporate risks which could impact on the operation of the SCF, given the use of Scottish Government staff and systems. While action to mitigate these risks is taken at Scottish Government level, we consider that these risks together with mitigating actions would help the reader of the accounts to more fully understand the potential risk on the SCF. ([Action Point 2, Appendix 1](#))

Systems of Internal Control

49. 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.

50. The Scottish Consolidated Fund is subject to the same controls that apply to the Scottish Government and therefore for this audit we could place reliance on our findings from our Management Report presented to the Scottish Government Audit and Assurance Committee in June 2022. 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 2021/22

Issue/risk	Recommendation	Update and Agreed management action/timing
<p>1. Audit trail: annual accounts to supporting evidence</p> <p>There remains some scope for further improvements in this area, such as better signposting to approvals for payments out of the Fund and better links from the financial statements to supporting documents.</p> <p>Risk. Good practice supports a clear audit trail between draft accounts and supporting evidence. Without a clear audit trail, there is an increased risk of errors occurring in the SCF accounts and/or an adverse audit opinion being issued.</p>	<p>To facilitate an efficient audit process there should be a clear audit trail linking the annual accounts to the electronic supporting documents.</p> <p>(Paragraph 22)</p>	<p>Management action:</p> <p>The SCF recording & reporting process is already under review with the aim of streamlining data capture and integrating directly with the production of the tracker. Coupled with the already noted improvements made in 2021/22, these actions should address this recommendation for the 2022/23 Account. Consideration is also being given to extending the range of GL accounts within the new ERP system to give greater transparency (available 2024).</p> <p>Responsible officer:</p> <p>Interim/Head of Branch, Treasury & Banking</p> <p>Revised date:</p> <p>April 2023</p>
<p>2. Transparency of reporting</p> <p>We identified some instances where the narrative disclosures in the governance statement and notes to the accounts could be expanded upon to aid the understanding of the reader.</p>	<p>The governance statement disclosures should be more fully aligned to the Scottish Government governance statement.</p> <p>The foreword and accompanying narrative together with the notes to the fund should be enhanced.</p>	<p>Management action:</p> <p>We will engage with Audit Scotland to identify and fully understand the specific areas of concern and seek to provide additional appropriate disclosures within both the Governance Statement and Notes.</p>

Issue/risk	Recommendation	Update and Agreed management action/timing
<p>Risk. There is a risk that the accounts lack transparency and do not aid the understanding of the reader.</p>	<p>(Paragraphs 38 and 48)</p>	<p>Responsible officer: Interim/Head of Branch, Treasury & Banking</p> <p>Revised date: July 2023</p>
<p>3. Capital Borrowing</p> <p>The liability to repay capital and revenue borrowing is not recognised in the SCF accounts as it is a receipts and payment account under the Public Finance and Accountability Act (Scotland) 2000.</p> <p>Borrowing to date has been taken from the National Loans Fund and is disclosed in the SCF accounts. As borrowing becomes more complex further reporting may be required.</p> <p>Risk. There remains a risk that current financial reporting structures are not sufficient to transparently report the assets and liabilities that arise from the Scottish Government's use of its borrowing powers. This will become more acute as borrowing levels and sources, interest payments and repayments become more complex.</p>	<p>The Scottish Government should consider creating a separate loans fund account to ensure that current and future reporting of borrowing is fit for purpose and allows transparent financial reporting to support decisions.</p> <p>(Paragraph 43)</p>	<p>Management action:</p> <p>The complexity of borrowing has not changed and continues to be transparently reported in accounts and in fiscal publications (for example, the Fiscal Framework Outturn report produced annually in September sets out full details of borrowing to date, repayment schedules and borrowing policies and plans). We will, however, be happy to have further discussion on this, including in relation to the further Scottish Public Sector Accounts in progress.</p> <p>Responsible officer: Deputy Director, Financial Management Directorate</p> <p>Revised date: March 2023</p>

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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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