LETTER FROM THE AUDITOR GENERAL FOR SCOTLAND TO THE PUBLIC AUDIT COMMITTEE, 18 NOVEMBER 2010

Thank you for your letter of 3 November concerning the evidence provided by Sir John Elvidge to the Public Audit Committee on 6 October.

I would like to start with a mention of the core purpose of the independent audits of financial statements which are undertaken on my behalf. The basis on which they are undertaken is to allow the external auditor to express an opinion on the truth and fairness of the accounts. In practice, the aim is to undertake sufficient work to provide the analytical basis for an opinion to be formed. The audit work in planned on the basis of an assessment of risks, and concentrates upon the more significant (or material) items in the accounts.

As I have said on many occasions in the past, it is the responsibility of management in any public organisation to operate robust financial and other internal control processes. The external audit process is not a substitute for proper control by management.

The annual audit of the Scottish Government’s financial statements includes a review of the systems for bringing expenditure to account. This is supported by an examination of a sample of transactions to confirm, for example, that payments have been correctly calculated, that they are appropriate and that they have been correctly coded.

The £180,000 loan made to The Gathering 2009 Ltd was one of the transactions which was included in the audit of the 2009/10 accounts. The audit confirmed that the payment was authorised by the Culture, External Affairs and Tourism Directorate within the Office of the First Minister’s Portfolio. I would expect management to have in place guidance on the procedures to be followed to escalate to a higher level in the organisation an awareness of, and if appropriate approval for, any unusual or possibly contentious expenditure. I would not expect the external auditor to consider the correctness of such internal decisions.

The annual audit of the Scottish Government also involves a review of bad debts which includes an examination of a sample of write-offs. As one of the larger write-offs in the 2009/10 accounts, the £180,000 loan was included in the auditor’s sample. This confirmed that Sir John took the decision to write-off the loan as a bad debt in his position as Accountable Officer for the Office of the First Minister’s Portfolio. The write-off is not disclosed in the Scottish Government’s 2009/10 accounts as only losses greater than £250,000 require separate disclosure as a note.

You also ask about whether Scottish Government internal audit has carried out any work in respect of the loan and its subsequent write-off. We maintain a close working relationship with the internal audit team at the Scottish Government and seek to rely on its work where relevant. I understand that internal audit has not carried out any work on the Gathering.

I trust this response is helpful.
LETTER FROM THE PUBLIC AUDIT COMMITTEE TO THE AUDITOR GENERAL FOR SCOTLAND, 3 NOVEMBER 2010

At its meeting on 6 October 2010, the Committee took oral evidence from Sir John Elvidge, the former Permanent Secretary, in connection with your report into *The Gathering 2009*.

In evidence Sir John explained that he did not know of the £180,000 loan provided to The Gathering 2009 by the Scottish Government at the time it was made. At column 1984 of the official report Sir John comments that, upon learning of this loan and the fact that The Gathering 2009 Ltd could not repay it, he did not investigate the original Scottish Government decision to provide the £180,000 loan because: “It was not my practice to go chasing after individual investigations of things that I knew the audit process would look at thoroughly anyway.”

Later at column 1985 Sir John states that “I think our systems for dealing with instances in which we may have to write off money are such that there is automatically a strong audit process."

I would be grateful if you could clarify whether any audit processes undertaken by Audit Scotland would include investigation of this loan and its subsequent write off. If so, it would be helpful if you could provide a summary of the outcome of that audit.

It would also be helpful if you could comment on any internal audit procedures undertaken by the Scottish Government which would also likely consider the circumstances of the £180,000 loan made to the Gathering 2009 Ltd and its subsequent write off.

I would be grateful for your response on the above matters by Monday 22 November. Please do let me know if this time frame presents you with any difficulties.

Should you require any further information please do not hesitate to contact the Clerk, Jane Williams on 0131 348 5390 or by email at pa.committee@scottish.parliament.uk.