Scottish Government

2023/24 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Scottish Government and the Auditor General for Scotland

October 2024

Contents

Key messages

2023/24 annual report and accounts

1 The independent audit opinion is unqualified. This means in our opinion, we are content the 2023/24 Scottish Government Consolidated Accounts show a true and fair view, follow accounting standards, and that the income and expenditure for the year is lawful.

2 All other audited information was consistent with the financial statements and properly prepared in accordance with the relevant legislation.

Financial management and sustainability

3 Total spending was underspent by £277 million (0.5 per cent) against a budget of £54,257 million. This does not represent a future funding loss as the relevant underspend is carried forward in the Scotland Reserve and applied in 2024/25.

4 The Scottish Government has dealt with emerging in-year pressures by implementing short-term solutions.

5 Finding a path to balance for 2024/25 remains challenging and the short-term nature of the Scottish Government's savings plans and implementation of spending controls means that the financial position for future years is unsustainable without significant public sector and workforce reform.

6 Given the challenging financial position it is important that key documents, such as the Medium-Term Financial Strategy and Infrastructure Investment Plan, are prepared and provide transparency on the future plans.

7 Progress has been made in relation to consolidated public sector information. The Scottish Government plans to consult on the 2022/23 draft consolidated financial information and publish 2023/24 data.

Vision, leadership and governance

8 The Scottish Government has effective assurance arrangements. We recognise that the Scottish Government has reviewed their governance arrangements to ensure they remain relevant and given the complexity this should be revisited periodically.

9 Improving the quality and consistency of sponsorship arrangements for public bodies remains a priority area with significant work underway to ensure arrangements are strengthened and lessons are learned from recent failures.

Use of resources to improve outcomes

10 Aligning funding to priorities is essential to decision making. There are many indicators and activities highlighted in the Policy Prospectus and Programme for Government together with others captured in a range of key strategies. The Scottish Government must focus activity to support the achievement of the key priorities.

11 Although performance reporting within the Scottish Government has improved, there is more to do to ensure that there are clearly defined, measurable performance targets for all priorities to support the assessment of how the Scottish Government is supporting the delivery of the National Outcomes.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of the Scottish Government. This report is addressed to the Scottish Government and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

2. The scope of the audit was set out in an Annual Audit Plan presented to the March 2024 meeting of the Scottish Government Audit and Assurance Committee (SGAAC). This Annual Audit Report comprises significant matters arising from an audit of the Scottish Government's consolidated accounts and conclusions on the wider scope areas that frame public audit as set out in the Code of Audit Practice 2021.

Responsibilities and reporting

3. The Scottish Government has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the Accounts Direction from the Scottish Ministers. The Scottish Government is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.

4. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2021, and supplementary guidance and International Standards on Auditing in the UK.

5. The Auditor General for Scotland is the auditor of the Scottish Government. Carole Grant, Audit Director, Audit Scotland, is the engagement lead responsible for the delivery of the audit.

6. This report contains an agreed action plan at Appendix 1. 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 of the Scottish Government from its responsibility to address the issues we raise and to maintain adequate systems of control.

7. We would like to thank non-executive members, and all staff, particularly those in finance, for their cooperation and assistance this year and we look forward to working together constructively over the course of the five-year appointment.

Auditor Independence

8. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £1,376,060 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

9. We add value to the Scottish Government by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice identified.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

The independent audit opinion is unqualified. This means in our opinion, we are content the 2023/24 Scottish Government Consolidated Accounts show a true and fair view, follow accounting standards, and that the income and expenditure for the year is lawful.

All other audited information was consistent with the financial statements and properly prepared in accordance with the relevant legislation.

We obtained the required assurances to address the risks of material misstatement identified from our audit planning work.

Audit opinions on the annual report and accounts are unqualified

10. The annual report and accounts for the year ended 31 March 2024 were considered by the Scottish Government Audit and Assurance Committee (SGAAC) on 7 October 2024. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework
- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was reviewed and revised on receipt of the unaudited annual report and accounts

11. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact the auditor's opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

12. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts as summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Planning	Final
Overall materiality	£600 million	£500 million
Performance materiality	£300 million	£250 million
Reporting threshold	£1 million	£1 million

Source: Audit Scotland

13. The final materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements. The reduction in materiality between planning and final did not cause any issues as there was no change to material account areas.

14. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Using our professional judgement, we have calculated performance materiality at 50 per cent of overall materiality, reflecting the Scottish Government's higher risk profile.

15. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

The unaudited core schedules and consolidated annual report and accounts were received in line with the agreed audit timetable but were incomplete

16. The unaudited core schedules were received on 28 June 2024 and the unaudited consolidated annual report and accounts on 30 August 2024, both in line with the agreed timetable. Some key elements such as the valuations of the Lochaber provision, and of Glen Rosa and Glen Sannox, remuneration and staff report disclosures as well as a complete statement of cash flows were not received until later in the audit process.

17. While response times for audit queries improved compared to 2022/23, there were still some delays in receiving information and this, coupled with the outstanding information detailed above, caused pressures on the audit team and Scottish Government finance staff. As with last year, we will have a lessons learned discussion and continue to work with the finance team to ensure the efficiency of the process.

Recommendation 1

All information should be available at the time of presenting the core schedules and consolidated accounts for audit.

Significant findings and key audit matters

18. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

19. The Code of Audit Practice also requires all auditors to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

20. The significant findings are summarised in Exhibit 2.

Exhibit 2
Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
1. Lochaber Aluminium Smelter Note 15 of the consolidated accounts refers to the Scottish Government's potential exposure to default payments in relation to the financial guarantee associated with the Lochaber Aluminium Smelter.	We reviewed the Scottish Government assessment of their potential exposure on the financial guarantee.

Issue	Resolution
In March 2021, Greensill Capital (UK) Limited, the major provider of working capital to GFG Alliance (the holding company), went into administration. There continues to be significant uncertainty regarding the financial stability of the GFG Alliance group. As part of the 2023/24 Accounts preparation process the Scottish Government reviewed the level of provision required for their guarantee and decreased the provision by £5 million to £130 million.	We concluded that the Scottish Government's assessment is reasonable.
2. Impairment of MV Glen Sannox and MV Glen Rosa Ownership of MV Glen Sannox and MV Glen Rosa and associated equipment and design rights were transferred from Caledonian Maritime Assets Ltd (CMAL) to the Scottish Government in 2019. For the financial year 2023/24, the Scottish Government capitalised £67 million of construction costs for MV Glen Sannox and MV Glen Rosa. The vessels are valued based on the original contract price [plus an uplift for inflation] and subsequent expenditure, less an impairment figure. The carrying value of MV Glen Sannox and MV Glen Rosa in the consolidated accounts at 31 March 2024 is £94.6 million (£82.6 million in 2022/23) following an impairment of £55.2 million (£59.7 million in 2022/23).	We reviewed the Scottish Government valuation process for MV Glen Sannox and MV Glen Rosa. We concluded that, for 2023/24, the Scottish Government's approach to the valuation of the vessels was reasonable.
3. Social Security Scotland Social Security Scotland, an executive agency, is included in the consolidated accounts. The 2023/24 accounts of Social Security Scotland include benefit expenditure of £3,238 million administered by the Department for Work and Pensions (DWP) under agency agreements with Scottish Ministers. Due to these delivery arrangements, Social Security Scotland cannot directly assess the levels of fraud and error in these benefits and is instead reliant on the DWP's annually published estimates. The estimated overpayments as a result of fraud and error in the benefits delivered by the DWP, ranged from 0.4 to 5.2 per cent of expenditure. This means an estimated £42.4 million of overpayments were made in Scotland. As a result, the auditor qualified their regularity opinion as these overpayments were not incurred in accordance with relevant legislation and regulations.	We assessed the potential impact of the qualified opinion and considered the qualitative and quantitative impact of the auditor's opinion on expenditure as it applies to the consolidated accounts. We concluded that, for 2023/24, the likely amount of error and fraud incurred in benefits and allowances is not significant enough to influence the economic decisions of the users of the consolidated accounts and therefore the audit opinion is not qualified in respect of this matter.

Issue	Resolution
As a component audit, the qualified audit opinion on the Social Security Scotland accounts requires us to assess the potential impact of its inclusion within the Scottish Government's consolidated accounts.	
4. Glasgow Prestwick Airport Glasgow Prestwick Airport transferred from Transport Scotland to the Scottish Government in January 2023. As agreed in 2022/23, the Scottish Government undertook an assessment of the expected credit loss under IFRS9 of the recoverability of the loans provided to Glasgow Prestwick Airport. This technical accounting assessment, together with management review, has resulted in the partial reversal of previous impairments of loans of £9.6 million. The value included within the consolidated accounts has risen from £11.6 million to £21.2 million.	We reviewed the Scottish Government assessment of the recoverability of the loans provided. We concluded that, for 2023/24, the Scottish Government’s assessment was appropriate.
5. Redress The unaudited accounts originally provided included within Note 15 (provision for liabilities and charges) a provision of £432 million in respect of payments estimated to be made to survivors of abuse under the 'Redress for Survivors (Historical Abuse in Care) (Scotland) Act'. The provision was based on expected levels of claims over the life of the scheme based on reporting by the Government Actuaries Department and average payment rates made on applications to date. Our review of the methodology identified that the original provision provided to audit had not been discounted to take account of the time value of money in line with accounting standards (IAS37 provisions, contingent liabilities and contingent assets). This resulted in a downward adjustment to the provision of £80.7 million. Prior to 2023/24, Redress had been disclosed in the accounts as a contingent liability as there had not been enough caseload data to reliably estimate the liability.	We reviewed and assessed the methodology underlying the provision. We concluded that, for 2023/24, the Scottish Government’s assessment of the provision was reasonable. The updated accounts disclose the amended provision of £351 million.
6. Disclosure of Civil Service pensions In 2015 the government introduced reforms to public service pensions. Most public sector workers were moved into reformed career average pension schemes. For the Civil Service this was ‘alpha’. In 2018, the Court of Appeal found that the rules put in place in 2015 to protect older workers by allowing them	We have reviewed the information provided and are content the remuneration report reflects the correct pension information. The Scottish Government has included the required disclosure for

Issue	Resolution
to remain in their original scheme were discriminatory on the basis of age. The 2015 Remedy (McCloud) legislation has been in place from 1 October 2023 and therefore this is the first year that this has been factored into calculations for the consolidated accounts remuneration report. The required figures are provided by MyCSP based on initial amounts provided by the Scottish Government. As a result of the change, there has been a delay in receiving the pension information relating to Corporate Board members. The required information was not received from MyCSP until mid-September, which has caused delays in concluding this work. The Scottish Government updated the consolidated accounts to reflect the late information from MyCSP, however this was not available for all named individuals. The 2023/24 Government Financial Reporting Manual was revised to enable bodies to include a disclosure explaining why the information was not included in the 2023/24 annual report and accounts.	the named individuals that did not receive MyCSP information.
7. Expenditure accrued for which no goods or services had been received Our audit testing identified three expenditure transactions for goods or services not received. The expenditure was posted to match off income received during the year which was to be deferred. They should have been deducted from income as no expenditure transaction was entered. These transactions all originated from the same directorate with a total value of £20.075 million. They include: • £15.895 million funding received from the UK Government. • £1.3 million of funding received from Health for awarding of grant in 2023/24 but to be deferred to 2024/25. There is no impact on the bottom line as deferred income and accruals are the same line in the account. The main impact will be on the financial liabilities within Note 12 - Financial instruments where accruals are disclosed as a single balance. • £2.880 million of income received from public bodies in respect of IT services, deferred to be offset against operating costs in 2024/25. As a consequence of the above, £20.075 million has been overstated in expenditure and overstated in	We applied our data analytics tool to review the remaining journals raised by the directorate focusing on items above the reporting threshold. We concluded that there was no material impact as a result of the mis-coding of these transactions for 2023/24. We have recommended that the Scottish Government continue to remind staff of the requirements for accurate coding and charging of expenditure.

Issue	Resolution
income. £17.195 million has been coded to accruals instead of deferred income. The Scottish Government has not amended for these errors. We have referred to these entries below at paragraph 38 below and in Appendix 2.	
8. Unaudited agency accounts The Scottish Government consolidated accounts reflect the assets and liabilities of all entities within the accounting boundary. All entities have now been audited and their accounts certified with the exception of the Scottish Public Pensions Agency (SPPA) and Accountant in Bankruptcy (AIB). Draft figures have been incorporated within the 2023/24 Scottish Government consolidated accounts (combined net expenditure £29.3 million). We are aware the commencement of the audit of AIB has been delayed. We have been advised by the external auditors of SPPA that the audit has been impacted by staffing issues at the agency and that there are delays in receiving responses.	We assessed the potential impact of any adjustments and the impact of a potential qualified opinion as it applies to the consolidated accounts. We concluded that, for 2023/24, the potential impact of either a qualified opinion or errors not being corrected is not significant enough to influence the economic decisions of the users of the Scottish Government accounts and therefore the audit opinion is not qualified in respect of this matter.

Source: Audit Scotland

Remuneration and staff report

21. Further to the matter reported above in Exhibit 2, point 6, we noted:

- 1,113 Full Time Equivalent (FTE) staff were considered to be ‘out of scope’ and were omitted from the staff numbers reported in the remuneration and staff report (1,327 FTE omitted in 2022/23). These staff include contract workers, work experience placements and student placements. The Scottish Government has amended the disclosures in the audited remuneration and staff report. We have reviewed these and are satisfied that the staff numbers are now properly disclosed.

- The FReM requires the Fair Pay disclosure to include agency and other temporary staff in the calculations, with the costs for consultancy staff being excluded. The Scottish Government were unable to provide a complete listing of temporary staff for inclusion within the fair pay disclosures and were unable to easily distinguish between agency staff and consultants based on the current eHR system not capturing these staff appropriately. As a consequence the Scottish Government has excluded agency and other temporary staff from the fair pay disclosures in 2023/24 and disclosed this fact within the remuneration and staff report.

- Information to support the exit packages disclosure was not provided as part of the initial audit working papers. The final information required was provided on 25 September 2024.

22. We have discussed the issues with the Scottish Government who have agreed to review how best to provide the information for the fair pay disclosure and will ensure that all exit package evidence is provided at the commencement of the audit.

Student loans

23. There is a significant degree of estimation and judgement in the valuation of the material account area of student loans (2023/24: £6.1 billion). The assumptions used in the valuation model are dependent on the macroeconomic environment and as a result can vary each year.

24. We continue to report good engagement with key officers within Student Awards Agency Scotland (SAAS) to ensure that the student loans recorded in the Scottish Government consolidated accounts are fully reconciled to supporting records held by SAAS. We discussed a number of matters around the accounting for student loans with both SAAS and other public audit agencies to further all parties' knowledge and understanding.

25. We are pleased to report that the recommendations made in 2022/23 relating to the disclosures on Financial Assets (note 11a) and the inclusion of student loan write offs within the Losses, Gifts and Special Payments section of the Accountability Report have now been implemented. In 2023/24, £12 million of student loans were written off.

26. We identified that an incorrect figure had been used in the calculation of an element of the unwinding of discounted cash flow in Note 11a. This resulted in an understatement of Annually Managed Expenditure and an overstatement of financial assets by £20 million. This is an unadjusted error and is included in paragraph 38 below and in Appendix 2. We welcome the intention of SAAS to review their accounting treatment of this adjustment in 2024/25, and to liaise with the other UK administrations to ensure all are accounting for student loans consistently and accurately.

27. As part of our testing of new student loans issued during 2023/24 (£638 million), we discussed the processes around verifying the accuracy of information provided by funding applicants. We are aware that a pilot exercise was undertaken in 2022/23 to match a sample of income-assessed applications to HMRC data to ensure that benefactor income had been accurately stated. The findings resulted in the identification of over £0.4 million of overpayments across bursaries and student loans. However, no equivalent exercise was undertaken on 2023/24 applicants' data.

28. As the responsibility for the accounting of student loans rests with the Scottish Government, similar exercises should be undertaken regularly to provide assurance over the accuracy of student funding applications.

Recommendation 2

The Scottish Government should ensure adequate reviews of student loans and bursary eligibility are undertaken on a regular basis.

Non-current assets

29. The Scottish Government consolidated accounts record property, plant and equipment assets and intangible assets of £40 billion. The core Scottish Government holds assets worth £764 million.

30. As at 31 March 2024 there are approximately 800 assets with a nil net book value, which represents 31 per cent of the assets listed on their fixed asset register. We are aware that the Scottish Government undertakes an annual asset verification exercise to identify assets which are no longer in use, and which should be removed from the register. As part of this exercise, approximately 1,200 assets were removed from the register during 2023/24.

31. Reconciliations are carried out at the year-end between the fixed asset register and the ledger. These reconciliations identified several variances between the two systems, often as a result of human error when inputting information onto the fixed asset register. This has resulted in several amendments in the fixed asset register in order to bring it in line with the ledger. We are aware that training has been provided to officers to reduce the level of human error.

32. The Scottish Government is undertaking a data cleansing exercise of all information held on the fixed asset register in advance of the introduction of the new Oracle cloud financial ledger system.

NHS Scotland losses

33. The consolidated accounts disclose losses of £12 million relating to expired flu and covid vaccine stock (£2.8 million), National Emergency Planning medicines (£2.1 million), pandemic related personal protective equipment (PPE) (£5.6 million) and National Distribution Centre stock (£1.5 million). This follows similar losses of £12.8 million last year.

34. In addition, due to a change in the Pharmacy system, the 2023 payments were made to Lloyds Pharmacy Ltd based on historic dispensing activity plus an element of contingency. The inclusion of contingency was to ensure the cash flow for pharmacies was not adversely affected with the expectation that any overpayment would be fully recovered once the actual dispensing claims were reviewed and approved. In early 2024, Lloyds Pharmacy Ltd went into liquidation with outstanding balances with Scottish health boards totalling £8.4 million.

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

35. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. Exhibit 3 sets out the significant risks of material misstatement to the financial statements we identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3
Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA (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. This is presumed to be a significant risk in every audit.	• Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual journal activity or other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the year. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments.	We undertook a range of audit work including: • Detailed testing of journal entries, prepayments, accruals, accounting estimates and unusual transactions. • Cut off testing of income and expenditure transactions. • Reviewing the results of controls and substantive testing and adjusting samples where relevant. We obtained sufficient assurance from this work to support our audit opinion.
2. Risk of fraud in expenditure Practice Note 10 extends the requirements of ISA 240 to include consideration of fraud in expenditure for public bodies. We recognise that due to the high volume and diverse nature of the	• Receipt of component auditor questionnaires and consolidation packs. • Evaluation and review of the component auditor's work where appropriate. • Analytical procedures across expenditure streams to support detailed testing.	Our audit work included: • Analysis of expenditure streams. • Substantive testing of transactions across the financial year and at the year-end.

Audit risk	Assurance procedure	Results and conclusions
Scottish Government's expenditure, including the qualification of the Social Security Scotland accounts on the grounds of regularity in respect of benefits expenditure, there is a risk that expenditure could be misstated.	• Substantive testing of significant transactions across the financial year. • Monitoring of the budgetary process and reporting. • Substantive testing of expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Substantive testing of accruals and prepayments. • Consider any relevant internal audit reports. • Regular communication with auditors of Social Security Scotland.	• Substantive testing of accruals and prepayments. • Review of Social Security Scotland paper on fraud/error position. We obtained sufficient assurance from this work to support our audit opinion.
3. Estimation and judgement in the valuation of student loans There is a significant degree of estimation and judgement in the valuation of the material account area of Student loans. (2022/23: £5.7 billion). The assumptions used in the valuation model are highly dependent on the macroeconomic environment and as a result are likely to vary in the short-term increasing the risk of material misstatement.	• Detailed review of the student loans model (assumption and application). • Assessment and where relevant testing of the management controls in place for the student loans model. • Focused substantive testing of student loans transactions and balances. • Evaluation of significant transactions outside the normal course of business. • Consideration of student loans provision including movements. • Review of fair value adjustments affecting student loans asset.	Our audit work included: • Review of the student loans model and the fair value adjustment affecting the student loans asset. • Assessing the management controls in place for the student loans model. • Substantive testing of student loans transactions and balances. We obtained sufficient assurance from this work to support our audit opinion.
4. Estimation and judgement in the valuation of provisions, financial guarantees and investments There is a significant degree of estimation in the measurement, valuation and disclosures of the material account areas of provisions	• Detailed review of the provisions, financial liabilities and financial assets account areas. • Substantive testing of advances and repayments transactions. • Review of fair value adjustments and unwinding of discounts as relevant.	Our audit work included: • Review of fair value accounting estimates, adjustments and unwinding of discounts. • Review of the work of the economist involved in the valuation of student loans. • Substantive testing of advances and repayments.

Audit risk	Assurance procedure	Results and conclusions
and investments as well as the disclosures for financial guarantees. Estimations and judgements increase the risk of misstatements.	• Detailed review of the work of any management expert used in the valuation process. • Review of accounting estimates for biases.	• Review of accounting estimates for biases. We obtained sufficient assurance from this work to support our audit opinion.
5. Estimation and judgement in the valuation of property, plant and equipment There is a significant degree of subjectivity in the valuation of property, plant and equipment, including the consolidation of the road network. Assets are subject to regular revaluation with indexation applied in the intervening period as appropriate. The valuation of the road network is technically complex and is based on specialist knowledge and management assumptions.	• Receipt of component auditor questionnaires and consolidation packs. • Evaluation and review of the component auditor's work where appropriate.	Our audit work included: • Detailed review of component auditor questionnaires and consolidation packs. • Review of component auditor's work as required. We obtained sufficient assurance from this work to support our audit opinion.

Source: Audit Scotland

36. In addition, we identified "areas of audit focus" in our 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. These areas of specific audit focus were:

- **Accounting for service concession arrangements –** we reviewed consolidation packs and component auditor's work where appropriate to check the changes in the accounting treatment for indexation linked payments in liabilities for service concession arrangements have been applied correctly. We concluded that the accounting policies have been appropriately applied.

- **Presentation and audit of financial statements –** The core schedules and consolidated accounts were provided to audit in line with agreed timetables. We note however that both included omissions which impacted on the efficiency of the audit process.

There were a number of misstatements identified within the financial statements

37. There were presentational and monetary audit adjustments to the unaudited Consolidated Annual Report and Accounts. These were discussed with senior officials who agreed to make the necessary changes.

38. We are required to report all unadjusted misstatements which we identified during our audit, other than those below our reporting threshold. The total unadjusted error within the Consolidated Accounts is £180.8 million. This balance is made up of £81.9 million relating to the core Scottish Government, £91.2 million relating to NHS bodies and £7.6 million relating to agencies and other consolidated bodies. Appendix 2 shows the unadjusted errors and their impact on the annual report and accounts.

39. If these errors had been adjusted, the net impact would have been to increase comprehensive net expenditure by £5.2 million and decrease net assets by £5.5 million.

40. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

Prior year recommendations are being progressed

41. The Scottish Government has progressed the prior year audit recommendations as detailed in Appendix 1.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

Total spending was underspent by £277 million (0.5 per cent) against a budget of £54,257 million. This does not represent a future funding loss as the relevant underspend is carried forward in the Scotland Reserve and will be applied in 2024/25.

The Scottish Government has dealt with emerging in-year pressures by implementing short-term solutions.

In recent years the completion and audit arrangements for Whole of Government Accounts have slipped. Focused action is required to enable timely and accurate submissions that have been subject to audit review.

The Scottish Government underspent its budget by £277 million in 2023/24

42. The consolidated accounts show that total net expenditure during 2023/24 was £53,980 million, £277 million less than budget (Exhibit 4). The resource budget was underspent by £193 million (0.4 per cent) against a budget of £51,766 million. Capital was underspent by £84 million (3.4 per cent) against a budget of £2,491 million. High-level reasons for significant variances between actual and budgeted spend are included in the consolidated accounts.

43. The largest resource variances related to:

- Education and Skills (£73 million) – underspends in Scottish Funding Council and higher education student support expenditure (both resource and annually managed expenditure), offset by an overspend in the Redress scheme.
- Transport, Net Zero and Just Transition (£88 million) – underspend in rail services and active travel low carbon and other transport initiatives offset by an overspend on roads on bridge strengthening and structural repairs.
- Rural Affairs, Land Reform and Islands portfolio (£74 million) - underspends in relation to the agricultural reform programme and related national test programme.

44. The largest capital variance occurred in the Transport, Net Zero and Just Transition portfolio (£60 million) where there was an underspend on roads capital expenditure and lower than budgeted drawdown on Voted Loans.

Exhibit 4
Performance against fiscal resource in 2023/24

Performance	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	51,766	51,573	(193)
Capital	2,491	2,407	(84)
Total	54,257	53,980	(277)

Source: Scottish Government Consolidated Accounts 2023/24

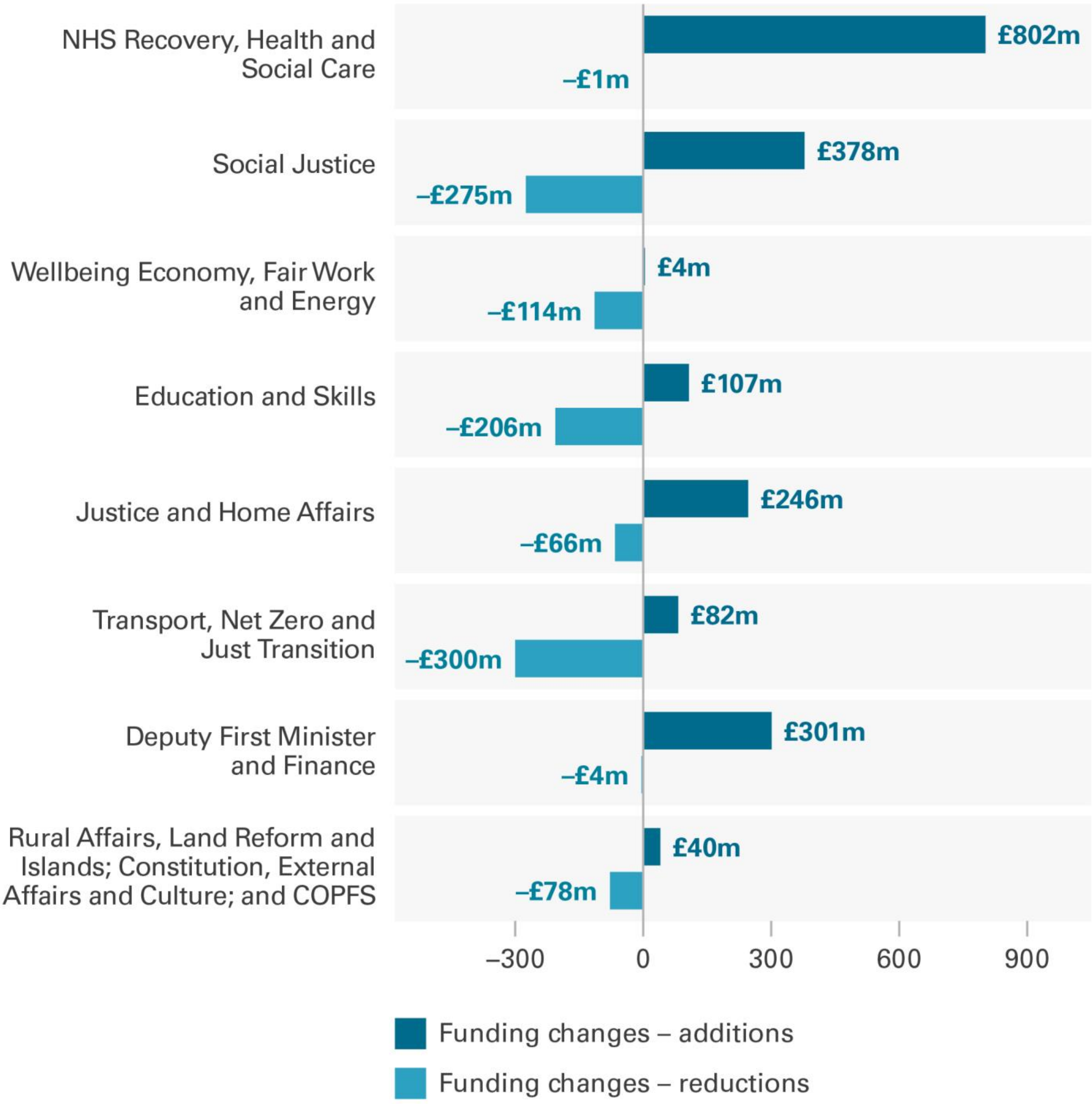
Budget processes were appropriate and responded to emerging pressures

45. The Scottish Government budget decreased as part of the Autumn (ABR) and Spring (SBR) Budget revisions (total decrease £1.19 billion). The decrease was largely due to a technical accounting adjustment at the SBR in relation to future NHS and teachers' pension costs which has no impact on discretionary spend. At each budget revision a range of amendments are processed, including funding adjustments, technical adjustments, Whitehall transfers and transfers within the Scottish Block. A number of deductions were made at ABR (£84.4 million) and SBR (£959.1 million) whereby funding was returned to the centre for redeployment elsewhere.

46. Exhibit 5 below highlights the impact of funding adjustments on each of the portfolios. The main providers of funding were Transport, Net Zero and Just Transition, and Education and Skills. It is difficult to understand how the reductions in portfolios reflect the key priorities of the Scottish Government as opposed to responding to immediate funding pressures.

47. In between the publication of ABR and SBR, in November 2023, the Deputy First Minister advised Parliament that additional costs had arisen since the 2023/24 original budget was set and a range of savings were required in order to balance the Scottish Government budget. Many of these were included within the ABR and SBR. The main pressures arising were public sector pay deals and on cost of living due to inflationary pressures. As a result, spending plans were reprioritised. Many of the savings had already been set out in the autumn budget revision and the scale of change was lower than in 2022/23 when two emergency budget reviews were undertaken.

Exhibit 5
Change in 2023/24 budgets



Source: Audit Scotland / ABR / SBR

48. Savings of £680.3 million were identified, split across portfolio resource savings of £296.6 million, capital savings of £226.8 million and consequential funding received from the UK Treasury as part of the at UK Spring Statement

Main Estimates (resource £94.8 million and capital £62.1 million). The main savings are outlined in Exhibit 6 below.

Exhibit 6
Budget savings

Portfolio	Resource £m	Capital £m	Total £m	Main changes
Education & Skills	152.4	13.0	165.4	• £102 million from Scottish Funding Council across various budget lines • £21.6 million from SAAS: reduced tuition fees
Rural Affairs, Land Reform and Islands	45.4	-	45.4	• Deferral of funding on agricultural support and related services (£21.2 million)
Transport, Net Zero and Just Transition	-	146.3	146.3	• Reprofiling of small vessels replacement (£41 million) and port works (£34 million) • Heat in buildings: reduction in expenditure and return of prior year loan repayments (£47 million)
Justice	7.5	20.0	27.5	• Scottish Prison Service reprofiling of capital spend (£20 million)
Wellbeing Economy, Fair Work and Energy	19.0	45.0	64.0	• Employability savings (£10 million) • Reprofiling of city and regional deals (£15 million) • Delayed delivery of Energy Industries programme (£30 million)
Social Justice	-	2.5	2.5	-
NHS Recovery, Health and Social Care	72.3	-	72.3	• Reprofiling of various projects including mental health recovery and renewal fund, digital prescribing and primary care reform and delivery (£52.8 million)

Source: Audit Scotland / Letter from the Deputy First Minister and Cabinet Secretary for Finance to the Convener of 21 November 2023

49. In addition to the above, the Scottish Government continued the Accountable Officer spending control process which requires proposals to be agreed via the Director-General Accountable Officer, Chief Financial Officer, the Permanent Secretary, and Ministers as appropriate before proceeding.

50. There also continued to be an increased focus on workforce planning, with recruitment controls in place. These included the requirement for Director General approval before any internal or external recruitment, re-grading of roles and new temporary responsibility supplement opportunities.

51. The introduction of these spending and recruitment controls together with reprioritisation of activities were essential tools to manage the budget pressures.

Work is continuing to strengthen the strategic approach to, and ongoing management of, financial interventions

52. In March 2022, the Scottish Government published its Business Investment Framework to outline its principles and approach for decisions about future investment in private companies. It was updated in November 2023 to reflect the lessons learned reviews and ongoing engagement with the audit team. The framework forms part of its investment guidance within the Scottish Public Finance Manual.

53. The Strategic Commercial Assets Division (SCAD) is now fully established and has five units covering initial assessment for investment through to potential exit strategy. SCAD's role is to consolidate expertise and knowledge and increase capacity to respond to cases that arise seeking support or intervention from the Scottish Government and provide support across the whole lifecycle.

54. SCAD has developed a range of guidance covering areas such as restructuring and insolvency and due diligence checklists. All these strands will be included within a 'playbook', a repository for guidance across each phase of the interventions lifecycle. A monitoring framework is currently in development to report on the performance of each asset utilising industry specific KPIs.

55. Exhibit 7 outlines the financial support that has been made to private companies that are now being managed by SCAD. This is in addition to support provided through other bodies including the enterprise agencies, Scottish Enterprise, Highlands and Islands Enterprise and South of Scotland Enterprise.

Exhibit 7
Financial interventions to private companies

Financial intervention	Total financial investment	Current value in consolidated accounts
Prestwick Airport Purchased by the Scottish Government in November 2013 with the stated aim of protecting jobs and safeguarding the asset. Change in financial investment value is attributable to accumulated debt interest. Total investment consists of capital (£43.4 million) and interest (£12.1 million).	£55.5 million (£52.5 million last year)	£21.2 million (£11.6 million last year)
Ferguson Marine (Port Glasgow) Holdings Limited Established by the Scottish Government in December 2019 after Ferguson Marine Engineering Limited (FMEL) went into administration. The existing voted loans (£97.7 million) were terminated and the difference between the valuation of the ferry vessels (£74.8 million) and the valuation of the outstanding loans (£22.9 million) was written-off in 2020/21.	£304.7 million (£237.5 million last year)	£94.6 million (£82.6 million last year)
Lochaber Aluminium Smelter – Liberty Group In December 2016, the Scottish Government issued a 25-year financial guarantee contract to SIMEC Lochaber Hydropower Limited. The Scottish Government receives an annual fee in return for the guarantee. The annual exposure to the Scottish Government is between £14 million and £32 million, over the lifetime of the contract.	Nil (no change)	Provision of £130 million (£135 million last year)
Burntisland Fabrications Limited (BiFab) In 2018/19 the Scottish Government converted £37.4 million commercial loans into equity representing a total equity stake of 32 per cent. BiFab was placed into administration in December 2020 and the Scottish Government is now pursuing a return through the administration process.	£50.9 million (no change)	Nil (no change)

Source: Audit Scotland

The Scottish Government is actively managing the financial risks following the closure of the European Structural and Investment Funds

56. The Scottish Government is responsible for managing two European Structural and Investment Funds (ESIF) for the period 2014 to 2020; the European Social Fund (ESF) and the European Regional Development Fund (ERDF). The Funds are now in the process of being closed with a final claim for reimbursement from the European Commission (EC) to be made in October 2024. The formal and final closure of the ESIF may be agreed by the EC any time from June 2025 until late 2028 depending on the issues raised about the use of the funds.

57. A different methodology for reclaiming costs was agreed with the EU following the suspension of the ESF programme. The suspension was lifted in October 2022. As a result of implementing the new methodology, the Scottish Government anticipates being able to reclaim less than it pays out to lead partners. As a consequence, and in line with accounting standards, the Scottish Government assessed the recoverability and have written off £45.5 million to date (£16 million in 2020/21; £2 million unwinding of the write-off in 2021/22, £21.5 million in 2022/23 and a further £9.5 million in the 2023/24 consolidated accounts) in respect of grant payments already made.

58. In addition, the Scottish Government has reviewed the calculation underlying the provision and reduced it to £1 million. Of the £12 million provision assessed in 2022/23, £9.5 million has now been utilised and written off and a further £1.3 million assessed as no longer being required. We are aware that the Scottish Government is closely monitoring the situation.

59. The Scottish Government is currently reviewing the potential for additional claims under the Fastcare Initiative for accommodation provided to Ukrainian migrants and the impact of an increased intervention rate being applied to 2023/24 declarations.

60. The Scottish Government recognises the risk around the receipt, checking, claiming and disbursement of EU funds. A number of mitigating actions have been introduced to ensure they maximise the income to be received.

61. Following the UK's withdrawal from the European Union, ESF and ERDF funding has been replaced by UK Government-led funding programmes including the Shared Prosperity Fund, Community Renewal Fund, Community Ownership Fund and the Levelling-up Fund. Guidance setting out the requirements of the Shared Prosperity Fund was issued in August 2022. Grants are paid directly to lead local authorities and may only be used for capital purposes.

Apart from payroll and the general ledger, the Scottish Government's systems of internal control operated effectively

62. As part of our audit work, we identify and test the key controls within the main financial systems of the Scottish Government which are significant for producing the financial statements. The objective of this work is to gain assurance over the processes and systems used in preparing the financial statements.

63. The findings from our review of the systems of internal control were included in our management letter which was presented to the June 2024 Scottish Government Audit and Assurance Committee. The results of the work informed our approach to the audit of the 2023/24 financial statements. We concluded that other than payroll and the general ledger, the Scottish Government's main systems of internal control operate effectively.

64. Two of the three weaknesses identified in respect of the general ledger system are known to the Scottish Government and they have accepted the risks posed by the weaknesses and rely on mitigating controls to deal with them. In response to the third weakness around system interface, we extended our sample testing and did not identify any further control failures.

65. Work on the payroll system identified instances where controls did not operate as expected resulting in weaknesses in the payroll reconciliation process and payroll audit team checks. In addition, controls around the authorisation of contracted travel expenses paid via the corporate travel system did not operate as expected. We adapted our audit approach to the financial statements in response, which included increased substantive testing and did not identify any significant issues.

66. While not a material account area, we have undertaken some work on expenses as a result of the matters identified in the Water Industry Commission Scotland (WICS) section 22 report.

67. We noted that there was a risk of misuse of the Corporate Travel Management system as staff are able to make bookings without enforced line manager approval on the system. In addition, we noted over 2,500 claims for payment in respect of expenditure incurred in prior years.

68. Internal audit's review of Travel and Subsistence during 2024 resulted in a limited assurance rating with opportunities identified to review and update policy and supporting guidance with particular reference to a number of areas including quality of supporting evidence to be retained as a corporate record.

Recommendation 3

The Scottish Government should review and enhance its controls around travel expenses, including strengthening its policy and ensuring that close down procedures are appropriately followed.

69. We recognise that the Scottish Government are introducing the new Oracle cloud system which will replace the current financial and eHR systems, and we expect this to strengthen the control environment for the payroll and general ledger systems.

70. Audit work has been undertaken to provide an audit opinion on the annual report and accounts, and in response to our additional responsibilities set out in the Code of Audit Practice. The control deficiencies reported here are limited to those identified while completing audit work for these purposes.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

71. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

72. The Scottish Government has a number of arrangements in place in respect of prevention and detection of fraud and error; these include a guidance note on Counter-Fraud, and the Scottish Government Guide which applies the principles from the SPFM to the Scottish Government directly. The guidance also provides specific details of the fraud investigation process through the Fraud Response Plan as well as supporting and reporting on concerns raised under the Public Interest Disclosure Act 1998.

73. There is also a Whistleblowing policy – Raising a Concern under the Civil Service Code and Whistleblowing - in place and available to all staff on the intranet; it includes a detailed guidance document which contains a flowchart that summarises the steps for raising, forwarding and investigating concerns.

74. In addition, there is a Scottish Government Integrity Group in place which is responsible for improving fraud prevention measures across the Scottish Government and monitoring cases of suspected external and internal wrongdoing made through formal reporting lines.

75. The Joint Counter Fraud Plan between Governance and Risk and Head of Counter Fraud Profession 2022-25 sets out the planned delivery and responsibility for a number of areas including the strategic fraud risk mapping and the implementation of strategic fraud risk profiling within annual governance, standardised fraud risk assessment, data analytics and counter fraud standards.

76. An annual report on fraud within the Scottish Government's consolidation boundary is considered by the Scottish Government Audit and Assurance Committee. This includes information on any identified cases of fraud and error during the financial year.

77. The Scottish Government has adequate arrangements in place to prevent and detect fraud or other irregularities.

The Scottish Government actively engages with the National Fraud Initiative

78. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. the Scottish Government participates in this biennial exercise. The 2022/23 exercise concluded during 2023/24 financial year and the final report was published in Summer 2024.

79. There were 4,283 matches identified as part of the 2022/23 exercise with 4,282 matches processed, with 1 match outstanding. There were six errors identified with repayment made for one and recoveries ongoing for the remaining five.

80. NFI progress is reported to the Scottish Government Audit and Risk Committee as part of the Annual Fraud Report and the Scottish Government continues to engage positively with the exercise.

The arrangements for Whole of Government Accounts need to improve

81. The 2022/23 Whole of Government (WGA) process continues to experience significant delays and challenges. The audit process has identified and reported on a range of unresolved matters including, differences between the certified annual accounts and the WGA return with no reconciliation between the two; and a lack of information around the identification and reporting of Counter Party Identifiers. As a consequence our audit opinion on the assurance statement is qualified.

82. We have raised improvement actions each year through our WGA management letters but there has been no action taken by the Scottish Government to implement these. There is poor engagement on the WGA audit process resulting in an inability to resolve queries and issues.

83. We note that the Scottish Government have been engaging with HM Treasury and recognise that there has been an acceleration in the provision of 2023/24 data for audit. The Scottish Government needs to implement improvement actions for the 2023/24 WGA process and beyond to support the return to more timely reporting.

Recommendation 4

The Scottish Government need to strengthen the WGA process and engage with the associated audit to support the timely delivery and resolve the recent qualified audit assurance statements.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

Finding a path to balance for 2024/25 remains challenging and the short-term nature of the Scottish Government's savings plans and implementation of spending controls means that the financial position for future years is unsustainable without significant public sector and workforce reform.

During 2022/23 the Scottish Government borrowed £347 million from the National Loans Fund to support revenue and capital expenditure. Loan repayments are increasing and the Scottish Government will need to manage these repayments, alongside all other financial pressures, in the years ahead.

Given the challenging financial position it is important that key documents, such as the Medium-Term Financial Strategy and Infrastructure Investment Plan, are prepared and provide transparency on the future plans.

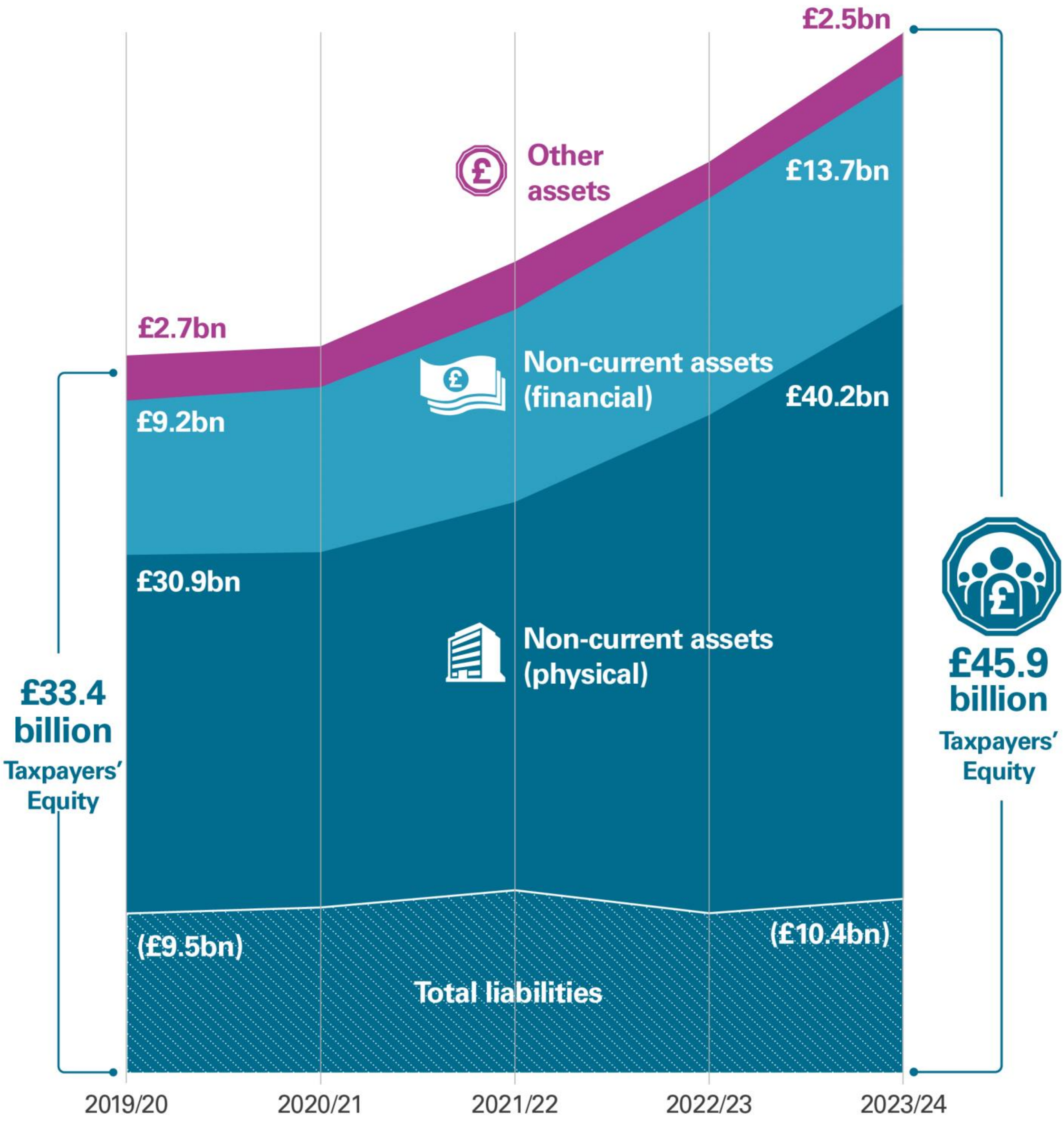
Progress has been made in relation to consolidated public sector information. The Scottish Government intends to consult widely on the 2022/23 consolidated financial information and then move to publishing 2023/24 data.

The Consolidated Statement of Financial Position shows a sound financial position, and progress has been made on collating a fuller picture for the Scottish public sector

84. The Consolidated Statement of Financial Position is one of the primary financial statements in the consolidated accounts. It summarises what is owned and owed by the core Scottish Government and those public bodies within the consolidated boundary. This shows taxpayers' equity – an accounting measurement of the amount of taxpayers' money applied that has continuing public benefit. It shows how much of this has arisen from the application of parliamentary funding (from the Scottish Block Grant, borrowing and devolved taxes) and how much resulted from changes in the value of physical assets over time.

85. As detailed in Exhibit 8, taxpayers' equity has increased in each of the last five years from £33.4 billion to £45.9 billion, largely due to an increase in physical assets (such as property and roads) and financial assets (such as loans and investments). Total liabilities (such as payments for private-financed projects) have increased from £9.5 billion in 2019/20 to £10.4 billion in 2023/24.

Exhibit 8
Financial position



Source: Scottish Government Consolidated Accounts

86. It is important to note that the position does not reflect all the assets and liabilities of the Scottish public sector. These accounts do not include resource and capital borrowing (paragraphs 90-96), local government assets and borrowing and all public sector pension liabilities.

87. In 2016, the Scottish Government committed to producing a consolidated account to cover the devolved public sector in Scotland. Good progress has been made during 2023/24 in collating financial information across the Scottish public sector. A draft version was prepared in May 2024, based on 2022/23 financial data and includes:

- Nine Scottish Government portfolios, eight executive agencies, Crown Office and Procurator Fiscal Service and the NHS Bodies responsible for the planning, promotion, commissioning and delivery of healthcare (the Scottish Government consolidated accounts)
- Non-Ministerial departments and pension schemes
- Direct Funded bodies: Audit Scotland and Scottish Parliamentary Corporate Body
- Executive NDPBs and public corporations
- Local Authorities.

88. The information focuses on the assets and liabilities across the Scottish public sector and provides a more complete picture of the financial position associated with the financial powers and responsibilities devolved to the Scottish Parliament.

89. The Scottish Government is currently reviewing the information and considering the preferred publication route. They also intend to engage with interested parties, including Parliamentary committees, to gather insights on its usefulness as a basis for further development. Following completion of the 2023/24 public sector audit process this financial information will be updated to provide a more timely insight on the assets and liabilities of the Scottish public sector.

Recommendation 5

The Scottish Government should reflect on the stakeholder consultation and prepare and publish consolidated 2023/24 financial information.

Repayments on borrowing continue to grow and will need to be managed within overall spending limits

90. Under the terms of the Scotland Act 2016, Scottish Ministers can borrow up to £3 billion for capital purposes, with an annual borrowing limit of 15 per cent or £450 million. The revised fiscal framework, agreed in August 2023 by the

Scottish and UK Governments, set out that these statutory limits will be maintained at 2023/24 prices. Both limits will be uprated annually.

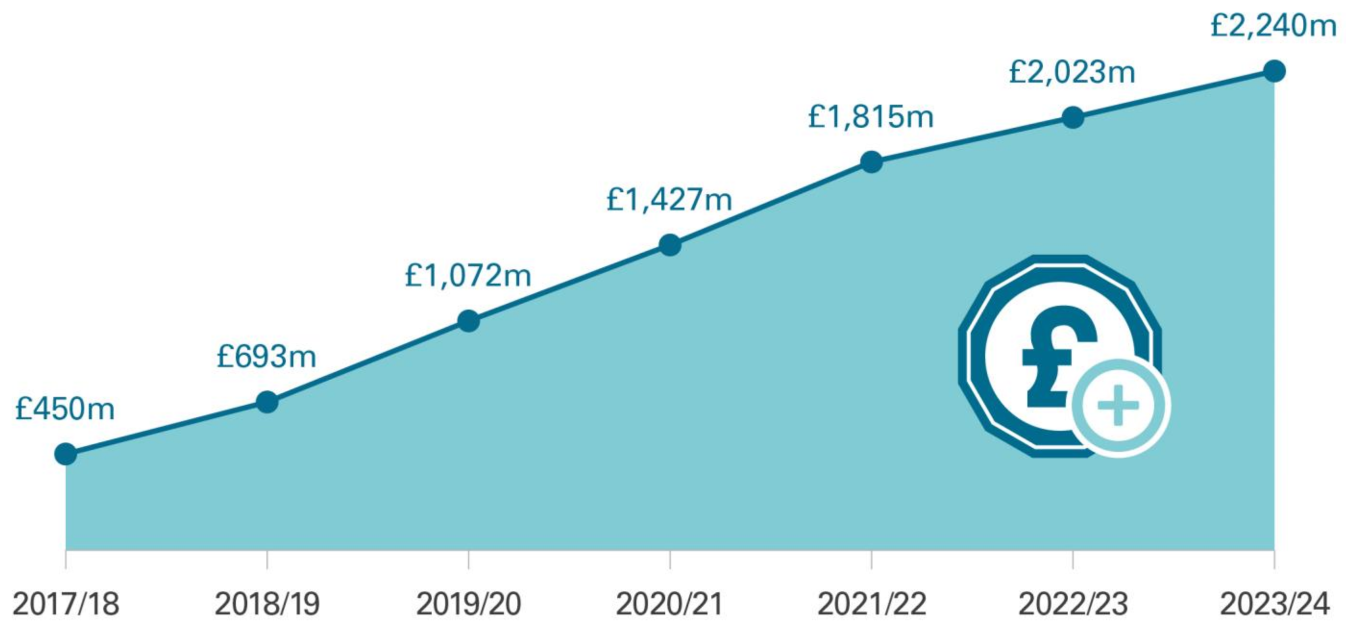
91. In 2023/24, the Scottish Government borrowed £300 million, less than the £450 million that was outlined by Scottish Ministers in the budget. The loans will be repaid to the National Loans Fund over 10 years, in line with the timescales outlined in the Fiscal Framework. The 2023/24 borrowing was used to support the overall capital programme.

92. In 2023/24, the Scottish Government borrowed to fund resource expenditure, as it has done in the previous three years. During the year it borrowed £104 million from the National Loans Fund to be repaid over five years. The resource borrowing was £63 million greater than budgeted.

93. Under the terms of the revised fiscal framework, the Scottish Government has the power to borrow up to £600 million each year up to a limit of £1.75 billion at 2023/24 prices. Resource borrowing can only be used for in year cash management and for forecast error in relation to tax receipts or demand-led social security spending.

94. As at 31 March 2024, the total principal amount of capital borrowing outstanding was £1,763.8 million, with interest of £296.0 million applying over its remaining life, up to 25 years. Resource borrowing outstanding at 31 March 2024 was £476.3 million with interest of £25.2 million accruing over the five-year repayment period. Exhibit 9 below highlights the growth in both capital and resource outstanding principal.

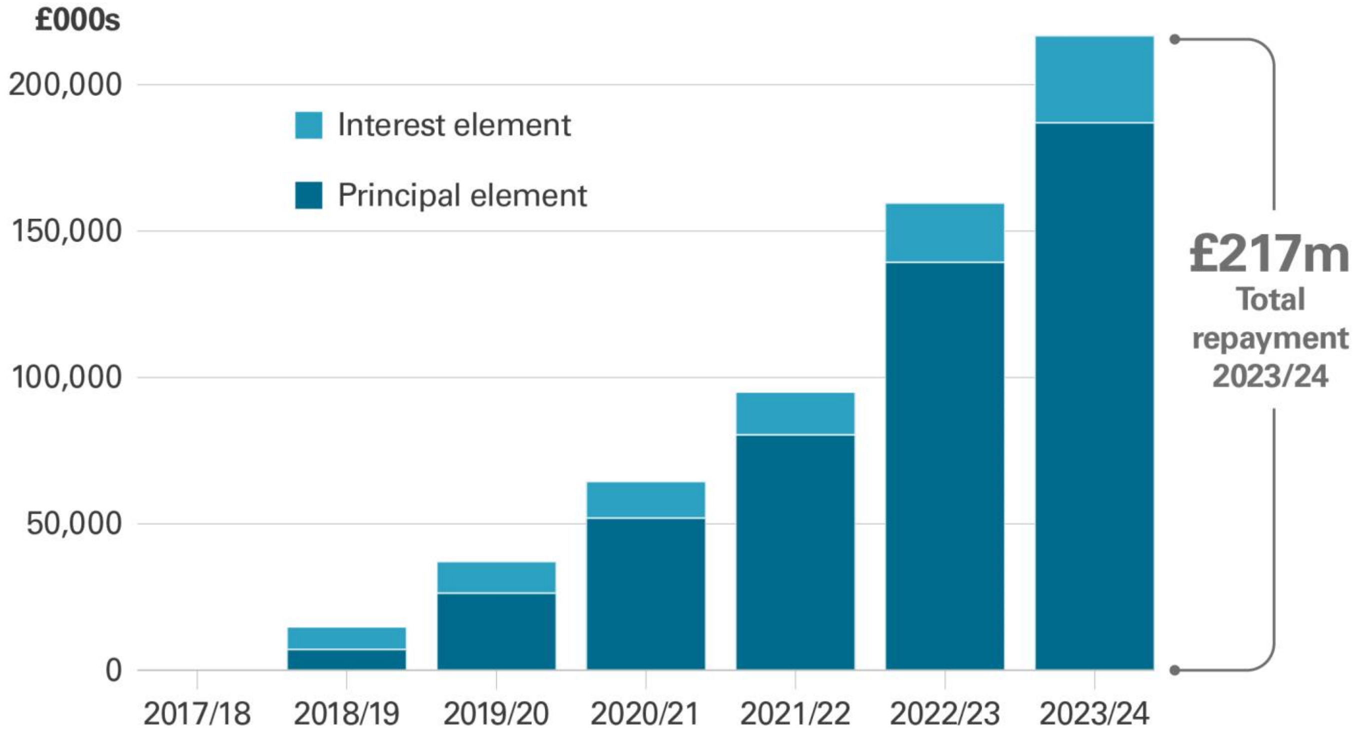
Exhibit 9
Outstanding principal at year end



Source: Audit Scotland and analysis of Scottish Consolidated Fund Accounts

95. Due to the accumulation of annual borrowing in recent years, loan repayments are increasing and totalled £217 million in 2023/24 (£160 million in 2022/23). Any increase in borrowing, particularly resource borrowing which is repaid over a shorter period and with currently higher interest rates, will still fall to be met alongside all other financial pressures. The Scottish Government will need to continue to manage this financial pressure of repayments alongside all other financial pressures in the years ahead. The increase in principal and interest paid since 2017/18 can be seen in Exhibit 10 below.

Exhibit 10
Repayments of principal and interest since 2017/18



Source: Audit Scotland and analysis of Scottish Consolidated Fund Accounts

96. The Scottish Government's borrowing and associated repayments are made via the Scottish Consolidated Fund (SCF). Borrowed amounts and repayments are made between the SCF and UK National Loans Fund with the corresponding adjustments made to funding received by the Scottish Government. This means there is no associated liability disclosed in the Statement of Financial Position within the Scottish Government's Consolidated Accounts. Details of the amount of borrowing and the associated liability are set out within a separate account prepared for the SCF and reported in several other Scottish Government publications.

Finding a path to balance for 2024/25 has been very challenging and significant risks remain

97. The 2024/25 Scottish Government Budget was passed by Parliament in February 2024 and was set at £59.3 billion. As noted in paragraphs 45-51, achieving financial balance in 2023/24 was a significant challenge which required a reprioritisation of spending plans.

98. The Scottish Government, in its Medium-Term Financial Strategy (MTFS) published in May 2023, highlighted the significant challenge where the projected increased spending over the medium term outstripped the forecasted increase in funding. During 2024/25, the Scottish Government has continued with Accountable Officer financial controls and restrictions on recruitment.

99. In recognition of the deteriorating financial position during the year, emergency spending controls were introduced in August 2024 whereby only expenditure which was essential or unavoidable could be undertaken. In addition, all discretionary expenditure on for example, travel and hospitality was stopped. Recruitment other than for frontline or critical workers was paused. These controls were to be applied across the public sector.

100. In September 2024, a range of measures were announced in order to achieve a balanced outturn position in addition to the above emergency spending controls. These included:

- Ending the off-peak rail fare pilot and not proceeding with the asylum seekers' concessionary bus pass pilot, and allowing local government to use existing programmes to fund pay deals (£65 million)
- Means testing the winter fuel payments (up to £160 million)
- Emergency spending controls (£100 million)
- Using Scotwind revenue (up to £460 million).

101. As a consequence of the action taken, the Scottish Government is more assured of achieving financial balance in 2024/25 but substantial risks remain. Many of the savings achieved in 2023/24 and proposed for 2024/25 are non-recurring in nature but are being used to fund recurring expenditure. The Scottish Government recognises that further work is required to ensure a credible path to balance is maintained. Financial management has been a core element of the assurance and governance arrangements with the budget being closely managed.

The Scottish Government has delayed preparing a medium-term financial strategy, but the outlook remains extremely difficult

102. In May 2022 the Scottish Government published its first Resource Spending Review (RSR) since 2011. The RSR set out indicative spending plans for five years up to 2026/27. It highlighted the economic and fiscal challenges facing the government over the medium term. High-level spending plans were outlined for each government portfolio and included a number of assumptions and expectations.

103. Since then, the Scottish Government produced its sixth Medium-Term Financial Strategy (MTFS) in May 2023. The MTFS provided an assessment of the medium-term outlook for Scotland's public finances covering 2023/24 to 2027/28. The 2023 Strategy sets out its assessment of Scotland's economic and fiscal outlook, alongside plans to manage the financial risks, as well as a broad spending outlook considering the effects of changing funding levels for government spending as outlined in the RSR.

104. The Scottish Government has intimated that it intends to publish the next MTFS after the UK Government's multi-year spending review reports in Spring 2025. Given the fiscal pressures, and the changes in UK Government plans, it is essential that the Scottish Government is able to look beyond the current year path to balance challenges and assess the medium-term financial outlook.

105. To address some of the resource pressures, capital funding has been transferred into resource funding. This has impacted on capital expenditure plans. The 2023 MTFS noted that between 2023/24 and 2026/27 capital funding is expected to fall by 1.6 per cent (cash terms) representing a 6.7 per cent real terms reduction. As a consequence it will be very difficult for the Scottish Government to deliver on some of its commitments.

106. The consolidated accounts disclose a number of contingent liabilities, letters of comfort, and capital commitments which may or may not transpire. For example, the Scottish Government's cladding remediation programme in respect of 'orphan' buildings, i.e. those not linked to a property developer, do not yet have costs attributed to them despite the Scottish Government issuing letters of comfort that they will cover the associated costs. Across the Scottish public sector much of the available capital resource is needed to fund essential maintenance impacting on any ability to invest for the future.

107. Some reprioritisation of capital projects has already taken place. The Scottish Government needs to prioritise, delay or cancel projects and programmes in its Infrastructure Investment Plan (IIP) to ensure the available capital is being targeted at the key projects. We are aware that the Scottish Government has delayed publication of the IIP until after the 2025 UK Government spending review.

108. The Scottish Government continues to face significant pressures on public finances resulting from a range of issues. These include the cost-of-living crisis, inflationary pressures, public sector pay, demand-led expenditure, the cost of delivering the statutory targets for child poverty and net zero, together with the impact of an aging population. Fiscal sustainability is one of the highest-ranking risks in the corporate risk register.

109. Public service reform is essential if the Scottish Government is to deliver on its commitments.

The Scottish Government needs to make changes to the design and delivery of services, including the size of the public sector workforce, to make them affordable

110. Both the RSR and MTFS set out public service reform as an essential tool to provide effective service delivery, reduce duplication and reduce costs. The Scottish Government has set out a ten-year programme of public service reform overseen by the Director-General Communities.

111. In addition to significant pressures on public finances, the use of non-recurring savings to fund recurring expenditure has further exacerbated the problem and the need to reform public services is crucial to achieving a sustainable future. While there have been some changes to the funding and delivery of pubic services there is, as yet, no clear plan for what reform will achieve or the associated timescale. The Auditor General for Scotland will be reporting in November 2024 on the Scottish Government's approach to fiscal sustainability and reform.

112. We recognise that public service reform will take time and there is a need to balance short term efficiencies, to assist the challenging immediate financial situation, with the longer-term reform of service delivery.

113. In July 2024, the new UK Chancellor of the Exchequer announced that they would accept all recommendations from the pay review bodies. This has impacted on the Scottish pay levels which to date have seen increases above the public sector pay policy. Scotland also has a relatively larger public sector workforce than the rest of the UK.

114. As reported in the Audit Scotland report 'The Scottish Government's workforce challenges' (October 2023), pay costs for NHS, central government, police and fire services, and further education were £13.4 billion in 2021/22. With recent pay deals exceeding the Scottish Government's public sector pay policy, £1.7 billion more than initially planned was agreed in pay deals for 2022/23 and 2023/24. These rises are locked into future budgets and are making it harder for the Scottish Government to manage pay costs over time.

115. As noted previously, workforce controls are in place and in September 2024, further recruitment controls were introduced within the Scottish Government. Ministers are considering how the additional recruitment controls will be extended to other public bodies. In addition, the Scottish Government are currently seeking to address the recommendations set out in the Auditor General for Scotland's report on 'The Scottish Government's workforce challenges' (October 2023,) focusing on a three-year approach to workforce in the public sector.

116. Workforce reform is a core part of public service reform. Since devolution, the Scottish Budget and workforce numbers have grown significantly. The Scottish Government's projections suggest that it cannot afford to pay for public services in their current form with Ministers stating the need for public services to evolve. Reform is urgently needed to address budget shortfalls of more than £1 billion over the coming years, as without clear and structured workforce reform, public services cannot be delivered in a financially sustainable way.

117. The 2023 MTFS identifies that the NHS workforce will continue to grow which will in turn place pressure elsewhere in the system. Any decisions about the NHS workforce size and costs will have a large impact on Scottish Government sustainability in the medium term.

The Scotland Reserve is an important component of the financial management system which supports longer term planning

118. The Scotland Act 2016 allows the Scottish Government to build up funds when devolved revenues are higher than forecast, smooth all types of spending (including carrying-forward underspends), assist the management of tax volatility and determine the timing of expenditure. The Scotland Reserve applied from 2017/18 onwards and is split between resource and capital.

119. The revised fiscal framework set out that the Scotland Reserve is capped at £700 million at 2023/24 prices and will be uprated annually with no limits for either payments into the Reserve or drawdowns from the Reserve.

120. The Scottish Government's policy is to apply any underspends for use in the following financial year. The Provisional Outturn 2023-24 Briefing Note notes that £244.3 million was used to support expenditure in 2023/24 with a further £292 million due to be applied in 2024/25.

121. There is publicly available information about the Scottish Government's approach to the Scotland Reserve. There is also information available about the intended drawdowns from the Reserve to support annual spending plans and reporting on Reserve movements. The Scotland Reserve balance is not reported in the financial statements within the Scottish Government consolidated accounts. Information about the Scotland Reserve is reported as part of the provisional and final outturn statements and is being included in the consolidated Scottish public sector financial information detailed at paragraphs 87-89 above.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

The Scottish Government has effective assurance arrangements in place. We recognise that the Scottish Government has reviewed their governance arrangements to ensure they remain relevant and given the complexity this should be revisited periodically.

The implementation of the new HR and Finance system (Oracle Cloud) went live in October 2024, following earlier delays. The system is expected to deliver efficiencies and provide better data to support decision making.

Improving the quality and consistency of sponsorship arrangements for public bodies remains a priority area with significant work underway to ensure arrangements are strengthened and lessons are learned from recent failures.

Governance arrangements continue to operate effectively

122. The Scottish Government has well established assurance arrangements in place, involving both Senior Management Team and Non-Executive Directors, including:

- Corporate Board - meets quarterly to provide strategic oversight on key areas including strategy, performance and governance.
- Audit and Assurance Committee - meets quarterly to assess the effectiveness of the assurance arrangements in place.
- Director General Assurance Boards - quarterly meetings for each Director-General portfolio to assess assurance arrangements around performance, finance, people and risk management.
- Executive Team - twice weekly meetings in various ‘modes’ to support focused consideration of key areas, for example delivery, strategic, people and investment assurance.

- There are a number of other corporate governance sub boards. These include, People and Place, Infrastructure and Investment, Talent Board and the Strategic Design Authority.

123. The role of the Audit and Assurance Committee continues to be paramount in ensuring efficient and effective arrangements are in place to provide advice, support and challenge to the Permanent Secretary, and in doing so, promoting good governance across the organisation.

124. During 2023/24 alternative approaches were piloted at two Director-General Assurance meetings which have since been rolled out across others. There has been a welcome move towards reducing the number and length of papers provided for each meeting, the time involved in attending each meeting and more focus on the key assurance areas. The impact of these changes should be assessed going forward.

The Governance Statement accurately captures the arrangements and risks that are being managed

125. A Governance Statement, prepared by the Permanent Secretary, is a key feature of the consolidated accounts. It forms part of a wider accountability report and summarises how the core Scottish Government is controlled and directed. The statement confirms that the Scottish Government complies with relevant guidance on corporate governance. It also highlights the main risks and opportunities and any significant internal control issues in 2023/24. We reviewed these arrangements and concluded that they are appropriate, that the Governance Statement is consistent with the financial statements and has been prepared in accordance with guidance issued by the Scottish Ministers.

126. The Permanent Secretary continues to review and develop the governance arrangements. In the Governance Statement the Permanent Secretary refers to the review of governance arrangements which was undertaken in 2023/24 and which will be implemented during 2024/25. The review covered for example: a standard Terms of Reference for boards, the extension of the Director-General Assurance pilot referred to earlier, and clarification of roles and responsibilities. Further changes to the governance structure are currently being considered.

Risk management arrangements continue to develop

127. Effective risk management enables organisations to be better informed in their decisions, have a greater likelihood of meeting their aims and objectives, and help them to avoid costly mistakes.

128. Risk management is key to the Scottish Government’s assurance framework and is a standing agenda item at Director-General assurance and Audit and Assurance Committee meetings. Risk is also discussed at Corporate Board and at meetings of the Executive Team. The Scottish Government has demonstrated its commitment to risk management and its continuous improvement. During 2023/24, the risk guide was updated together with revisions to the risk policy and strategy. In addition, the Scottish Government has been developing the use of risk appetite statements in order to identify the level of risk which it aims to operate at and the level of risk it is willing to tolerate.

129. We observed robust discussions on risk reporting in general and on Director-General and corporate risk registers. Risk management arrangements are well developed and regular training updates are offered. The Principal Accountable Officer in the governance statement refers to the risk management arrangements and provides an outline of the key risks.

Oracle Cloud went live in October 2024, following earlier delays. In order to achieve its ultimate objective, it is essential that the system is utilised to provide better data to support decision making and deliver efficiencies

130. We have reported over the last few years on the Scottish Government's Shared Services Programme (SSP) which is set to deliver a new HR and Finance platform (Oracle Cloud), to replace the legacy systems which are no longer fit for purpose. The new Oracle Cloud platform provides a shared service to Scottish Government core and 32 public bodies.

131. The new Oracle platform was due to be implemented on 1 April 2024, however in December 2023 the decision was taken to delay as there was no clear and safe path to implementation on that timeline. Plans were then progressed towards an October 2024 go-live. We have engaged with the corporate transformation team, finance and HR staff and the external auditors of other public bodies to build our understanding of progress, and to plan for an efficient assurance model for our 2024/25 audit.

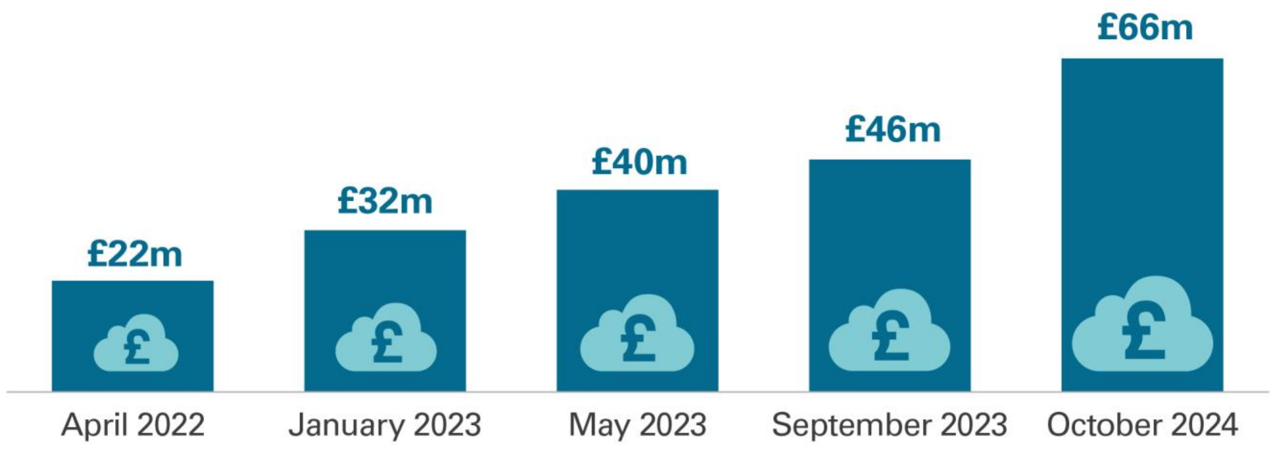
132. The project team has regularly issued readiness questionnaires to all future user bodies to assess organisational readiness. While the results of these have shown an improving level of readiness over time, there have been some areas of concern highlighted in the responses, including around the provision of assurances and information by the programme team.

133. The success of the project will require the programme team to continue to work to address concerns and issues in the post-go live phase. In recognition of this, we note that the Systems Integrator IBM will provide 3 months of 'hyper-care' to support the transfer to 'business as usual' following go-live.

134. Project implementation costs are currently estimated to be £66 million, up from £22 million at the start of the project in April 2022. The Scottish Government is anticipating a VAT recovery of £7.6 million, which would reduce the project cost to £58 million.

135. The increased cost can be attributed to a combination of an underestimation of the scale and complexity of the programme and associated restated timelines. Each month of delay has resulted in an additional cost of £3 million to maintain the legacy systems. The costs are shown in Exhibit 11.

Exhibit 11
Oracle Cloud Platform Programme Cost



Source: Scottish Government

136. The project team have indicated that there will be a post implementation review of the programme, with lesson learned reports planned as part of the programme closure for phase one. No formal timescales have been set for this review.

137. As a result of discussions with the programme team, they are looking to engage a service auditor. The role of the service auditor is to provide a report against recognised standards and provide independent assurance that outsourced service providers are operating effective controls. This gives the users of the service assurance that the system operates as intended. It also delivers efficiencies as it avoids the need for multiple audits and enquiries.

138. Successful implementation is more than just the new platform being in place, but that each of the bodies are utilising better data to support decision making, alongside delivering efficiencies and improving cyber security arrangements. We will continue to report on the implementation of the Oracle Cloud programme as part of our 2024/25 audit.

The timelines for MV Glen Sannox and MV Glen Rosa have continued to extend with costs also increasing

139. Over 2017 and 2018, the Scottish Government provided commercial loan facilities totalling £45 million to Ferguson Marine Engineering Limited (FMEL), a shipbuilding and engineering company based in Port Glasgow. The purpose of the loans was to support FMEL's completion of a contract to build two ‘dual-fuel’ ferry vessels (MV Glen Sannox and MV Glen Rosa) for Caledonian Maritime Assets Limited (CMAL). By April 2019, FMEL had drawn down the full loan facility of £45 million and no extended facilities were provided.

140. In August 2019, FMEL entered administration which led to the Scottish Government acquiring the business in December 2019 following a review of bids by the administrator. Following administration, a new company was established, Ferguson Marine (Port Glasgow) Holdings Limited (FMPG), which is a company wholly owned by Scottish Ministers established under the Companies Act 2006.

141. The oversight of FMPG by the Scottish Government is undertaken by a specific Ferguson Marine Governance and Oversight Unit which is part of SCAD. Work to revise the framework agreement, which sets out the obligations and requirements for FMPG as a public sector organisation, has now concluded. A new interim chief executive and chief financial officer were appointed in March 2024.

142. The Scottish Public Finance Manual (SPFM) requires the Accountable Officer to ensure the propriety and regularity of finances and that any resources are used economically, efficiently and effectively, e.g. that value for money is achieved. If after due diligence, the spending decision is not deemed to be value for money, then the Accountable Officer should obtain written authority from Scottish Ministers to proceed. Exhibit 12 outlines the timeline, associated costs to complete the vessels and due diligence process that have taken place.

Exhibit 12

MV Glen Sannox and MV Glen Rosa: timeline and due diligence

Date	MV Glen Sannox timeline	MV Glen Rosa timeline	Total cost to complete both vessels (since public ownership)	Due diligence process
Dec 2019	Dec 2021	Oct 2022	£110m - £114m	Initial decision to acquire
Aug 2020	June 2022	Feb 2023	£110m - £114m	-
June 2021	Sept 2022	July 2023	£110m - £114m	-
March 2022	May 2023	Dec 2023	£119m - £123m	High level AO assessment
Sept 2022	May 2023	Jan 2024	£203m	Full AO assessment commenced
March 2023	May 2023	March 2024	£210m	-
June 2023	Dec 2023	Dec 2024	£223m	-

Date	MV Glen Sannox timeline	MV Glen Rosa timeline	Total cost to complete both vessels (since public ownership)	Due diligence process
Sept 2023	March 2024	May 2025	£240m	FMPG detailed scrutiny
February 2024	May 2024	Sept 2025	£299m	AO Assessment update planned
April 2024	July 2024	Sept 2025	£299m	
May 2024	July 2024	Sept 2025	£299m	
June 2024	August 2024	Sept 2025	£299m	
September 2024	October 2024	Sept 2025	£299m	

Source: Audit Scotland

143. As a consequence of a due diligence review undertaken during 2022/23, the Accountable Officer (Director-General Economy) formed the view that value for money could not be achieved in respect of MV Glen Rosa given its stage of completion, expenditure to date and the forecast costs to complete.

144. In accordance with the SPFM, on 13 May 2023, the Director-General Economy requested a written authority from the Cabinet Secretary for Wellbeing Economy, Fair Work and Energy. In response, on 14 May 2023, the Director-General Economy was provided with the written authority to proceed with the build of MV Glen Rosa at FMPG based on the current cost projections.

145. We reported last year that based on the evidence available, the process followed was in accordance with the requirements set out in the SPFM.

146. We note that, in the recent updates provided to the Net Zero, Energy and Transport Committee there has been no further change, since the February 2024 update, to the total costs of delivering both vessels (£149 million for MV Glen Sannox and £150 million for MV Glen Rosa). There have been some delays to the delivery of MV Glen Sannox which is now expected to be delivered by mid-October 2024.

147. FMPG undertook a detailed scrutiny of the cost estimates and delivery schedule from September 2023 through to February 2024. The result of this scrutiny was to announce the cost increases and delivery delays in February 2024. In March 2024, the Cabinet Secretary for Wellbeing Economy, Net Zero and Energy advised Parliament that due diligence had commenced on the increased costs to ensure they were accurate and justifiable. Although a factual review of the cost projections has been completed, the due diligence is still ongoing. A Portfolio Accountable Officer Assessment is required to be undertaken on the February 2024 cost increases and this is also still ongoing. This should be concluded as a matter of urgency to provide assurance to the Accountable Officer on the costs associated with the delivery of the vessels.

Sponsorship arrangements for public bodies remains a priority area

148. The Scottish Government has implemented the recommendations set out in the independent review of its relationships with public bodies and as a consequence, the risk was removed from the corporate risk register in March 2024 to be actively managed by each Director-General.

149. The Public Bodies Support Unit (PBSU) continues to provide an overview to each Director-General assurance board and the Audit and Assurance Committee to highlight areas of concern. The regular updates include the use of a RAG system to advise of any concerns that are then escalated to ensure visibility across the Scottish Government. We noted some inconsistencies in the reporting to assurance groups and occasions where no information was provided on the red or amber rated bodies. The lack of consistency in the reporting of sponsorship information could impact the level of oversight by the assurance group.

150. We noted last year that it would take time for the Scottish Government to demonstrate the impact of actions taken in response to the independent review. We referred to the need for cultural and behavioural change to foster good relationships with public bodies over time. Similarly, the benefits realised from improvements in training and support offered to sponsor teams will take time to evidence.

151. In December 2023, the Auditor General for Scotland drew attention to significant weaknesses in the governance and financial management arrangements within the Water Industry Commission for Scotland (WICS) and noted concerns around the achievement of value for money in the use of public funds.

152. The Scottish Government responded to the report's findings, and other issues raised, by initiating an independent review of WICS together with an internal review of the sponsorship arrangements with WICS. A deep dive into each Director-General sponsorship relationship was held over summer 2024 to assess sponsorship arrangements generally and to disseminate any lessons learned across the organisation.

153. The results from this exercise will inform future changes to Framework Agreements and existing sponsorship arrangements. There are plans in place for this to be an annual exercise to strengthen the overall oversight on bodies.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

Aligning funding to priorities is essential to decision making. There are many indicators and activities highlighted in the Policy Prospectus and Programme for Government together with others captured in a range of key strategies. The Scottish Government must focus activity to support the achievement of the key priorities.

Although performance reporting within the Scottish Government has improved, there is more to do to ensure that there are clearly defined, measurable performance targets for all priorities to support the assessment of how the Scottish Government is supporting the delivery of the National Outcomes.

The Scottish Government has appropriate arrangements to ensure fairness and equality is embedded across the organisation.

The complicated landscape of priorities is hindering the achievement of outcomes

154. As noted previously there has been no medium-term financial strategy published this year. The MTFS which was published in May 2023 set out the key risks and three key pillars which would underpin the Government's approach to strengthening the medium-term position. The three pillars identified were:

- focusing spending decisions on achieving the Government's three critical missions (equality, opportunity and community) and targeting resources to have the greatest impact on outcomes
- supporting sustainable, inclusive economic growth and the generation of tax revenues
- maintaining and developing the Scottish Government's strategic approach to tax.

155. During 2023/24, the Government also published the Policy Prospectus (in April 2023) and the Programme for Government 2023/24 in September 2023. The Policy Prospectus set out three interdependent missions:

- equality – tackling poverty and protecting people from harm
- opportunity – a fair, green and growing economy
- community – prioritising public services.

156. Since then, the new 2024/25 Programme for Government has been issued by the new first Minister and sets out the Scottish Government's commitments for the year within four key priorities. It outlines key actions to be taken during the year against the four priorities of:

- Eradicating child poverty
- Growing the economy
- Tackling the climate emergency
- Ensuring high quality and sustainable public services.

157. Aligning funding to priorities will be essential to effective decision making. The continuing revisions and development of policy limits the ability to be transparent, provide continuity and report achievement across the key priorities. We continue to report that there are a multitude of commitments highlighted in the Policy Prospectus and Programme for Government together with others captured in a range of key strategies. There is an absence of clearly defined performance measures with measurable targets for all priority areas. There are also a number of major programmes currently being progressed by the Scottish Government, each with their own objectives, targets and policies.

Recommendation 6

The Scottish Government needs to clarify its priorities and have measurable targets to support the achievement of improved outcomes. Non-essential areas need to stop to enable activity and funding to be targeted at priority areas.

The Performance Report within the consolidated accounts has improved but should be developed further

158. The 2023/24 consolidated accounts include a performance report and an accountability report in line with the basic requirements of the Government Financial Reporting Manual (FReM).

159. The Scottish Government's performance report summarises financial performance for the year, with emphasis on performance against budget. It also contains some specific performance information which is required by current guidance on supplier payment performance, and signposts where more information is available on sustainability and environmental performance.

160. The performance overview section sets out the National Performance Framework (NPF) together with progress towards eleven National Outcomes as at August 2024. Eighty-one national performance indicators have been assessed with 21 improving, 35 maintaining, and 14 worsening. No performance was reported against 11 indicators as they were either in development (6) or the data could not be calculated due to changes in the methodology (5). Limited information is provided in respect of the reasons underpinning the worsening indicators including any detail on the action to be taken to support improvement.

161. The revision of the NPF has progressed throughout 2024 and it is critical that the agreed National Outcomes are supported by measurable indicators which can demonstrate the progress being made over the associated timescales. We cannot continue to be in a position where indicators have been set that cannot be measured, it is unacceptable that 6 indicators for the previous NPF remain in development.

162. The performance analysis section has been redesigned to focus on the three missions set out in the Policy Prospectus and sets out actions taken during the year to deliver on them. This is a welcome change to the narrative from prior years where the analysis tended to focus on the performance of portfolios. The narrative provides the reader with a range of performance detail set against the missions together with some trend information.

163. While we recognise some improvements have been made to the reporting in 2023/24, the information provided requires to be refined further to ensure greater accessibility and transparency to the reader. Without targets against which activity can be measured, it remains difficult to form an overall picture of the performance of the Scottish Government from the information presented. The reader will be unable to assess whether the Scottish Government is delivering on its contribution to the National Outcomes.

164. The performance report needs to be more transparent with a golden thread linking all aspects of performance and providing an overall view of progress. The narrative should be carefully selected to tell the full story and should include positive and negative aspects.

165. We again report that there has been limited continuity in the unit responsible for this element of the annual report. Effective public reporting requires continuous review and refining by staff knowledgeable of the area. In addition, experienced and knowledgeable staff will help refine the reporting on those key areas and will link the information together more effectively.

Recommendation 7

The Scottish Government should ensure greater accessibility and transparency of its performance reporting within the consolidated accounts. The performance report needs to present clear targets and progress towards achieving priority outcomes. There should be continuity of corporate knowledge and experience to ensure continuous improvement.

Arrangements for climate change continue to develop

166. The Scottish Parliament has set a legally binding target of becoming net zero by 2045, five years earlier than the rest of the UK. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

167. Interim targets were set including a 75 per cent reduction in greenhouse gas emissions by 2030. In March 2024, the Climate Change Committee reported that it regarded the 2030 target as unreachable.

168. Responsibility for leading the Scottish Government's effort on supporting the delivery of net zero targets and adaptation outcomes lies with Director General - Net Zero. It is recognised, however, that all portfolio areas need to contribute and embed climate change considerations into their financial and policy decision-making processes. Climate change mitigation and adaptation are captured on the corporate risk register.

169. The Scottish Government established the Global Climate Emergency (GCE) Programme Board to provide oversight and assurance for climate change action at the corporate level and encourage a cross-government approach. A Deputy Director Network has also been established, as well as various policy delivery boards, to support the work of the GCE Programme Board.

170. The Scottish Government publishes climate change performance information on its website. The most recent Annual Monitoring Report was published in May 2024 and includes policy outcome indicators which relate to the outcomes in the Climate Change Plan. As at May 2024, of the 43 indicators, 18 were reported to be on track, 15 off track, and 10 too early to say. It is, however, difficult to ascertain the direct contribution from the Scottish Government to the overall climate change targets.

171. The Scottish Government reports annually on their compliance with their climate change duties by completing the Public Sector Report on Climate Change Duties. Regular updates are also provided to Assurance Boards and the performance report provides an update from the Net Zero Energy and Transport portfolio.

172. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

173. The Scottish Government published details of a proposed Deposit Return Scheme (DRS) in 2019 following a public consultation. The policy was then developed with support from The Deposit Return Scheme Implementation Advisory Group whose members provided a range of industry experience of relevance to the operation of the scheme.

174. The legal framework for the scheme was created by the Deposit and Return Scheme for Scotland Regulations 2020, which were passed by the Scottish Parliament in May 2020. However, following the decision by the UK Government not to grant a full exclusion from the Internal Market Act, the regulations were amended in 2023 which delayed the launch date of DRS until October 2025 which at the time aligned with schemes in the rest of the UK. As a result, it is likely elements of Scotland's scheme will need to be redesigned to be fully inter-operable with the UK. A revised UK wide launch date of October 2027 was subsequently announced earlier this year

175. The scheme administrator, Circularity Scotland Limited went into administration in 2023 due to the delay in implementation. The waste firm Biffa was the Scottish DRS official logistics service provider and is currently seeking compensation from the Scottish Government for the amounts they invested in preparation for the scheme.

The Scottish Government is committed to securing fairness and equality across the organisation

176. Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure best value. The Scottish Public Finance Manual (SPFM) describes the duty of best value and includes guidance as to what organisations should be able to demonstrate.

177. The SPFM identifies seven key themes of which two are cross cutting. Public Bodies have a range of legal duties and responsibilities with regard to equality. A Best Value organisation will demonstrate that consideration of equality issues is embedded in its vision and strategic direction and throughout all of its work. As part of our 2023/24 audit, we considered one of these cross-cutting themes as applied by the Scottish Government.

178. Under the public sector equality duty created by the Equality Act 2010, the duty to secure Best Value also applies to securing fairness and equality. The Scottish Government has demonstrated that it meets the requirements of equality legislation and that it has a culture which encourages equal opportunities.

179. Equality arrangements are mainstreamed into the work that the Scottish Government carries out through Equality Impact Assessments (EIAs), the integration of stakeholder engagement and consideration of equality to inform planning for projects. Recent EIAs undertaken include NHS Dental Reform, Ukraine – Super Sponsor Scheme and the Self Harm Strategy and Action plan 2023-37.

180. The Scottish Government's commitment is also demonstrated through a series of publications and staff engagement including Mainstreaming reports, as well as the Diversity and Inclusion employer strategy for the Scottish Government. In addition, internal control checklists which form a key part of the overall assurance process, specifically require Accountable Officers to consider equality and diversity arrangements within their portfolio.

181. The Scottish Government's Equality Evidence Strategy 2023-2025 sets out the ambition to develop a robust and comprehensive equality evidence base. There are numerous indicators against which the Scottish Government measures and reports performance and these are published and readily available. The Scottish Government is taking appropriate action to secure best value in relation to fairness and equality.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue / risk	Recommendation	Agreed management action / timing
1. Completeness of unaudited accounts Some key elements of the accounts such as the valuation of the Lochaber provision, Glen Rosa and Glen Sannox and the cash flow statements were not provided until late in the audit process. Risk – The audit process cannot be efficiently delivered impacting on the overall timeline.	All information should be available at the time of presenting the core schedules and consolidated accounts for audit. Paragraph 17	**Accepted** Significant progress has been made in 2023-24 with regards timeliness of information provision to Audit Scotland. This work will be continued into the 2024-25 process with an aim to take further steps to reduce accounts closure timeframes in line with the audit plan. Responsible officer: Deputy Director Corporate Finance Agreed date: 29 August 2025
2. Student loans The process for verifying the accuracy of information provided by funding applicants is not regularly undertaken. Risk – Overpayments exist within bursaries and student loans resulting in a loss to the public purse.	The Scottish Government should ensure adequate reviews of student loans and bursary eligibility are undertaken on a regular basis. Paragraph 28	**Partially accepted** During 2023/24 no data sharing exercise was undertaken, in 2022/23 a sample cohort was verified. We have now agreed (19th Sept 2024) to progress the full cohort of income assessments to be verified via HMRC data for 2025/26 academic year applications. Responsible officer: Director of Corporate Services SAAS Agreed date: November 2024

Issue / risk	Recommendation	Agreed management action / timing
3. Expenses Staff are able to make bookings on the Corporate Travel Management system without line manager approval and expense claims are not submitted in a timely manner Risk – Inappropriate expenses are incurred and paid.	The Scottish Government should review and enhance its controls around travel expenses, including strengthening its policy and ensuring that close down procedures are appropriately followed. Paragraph 68	**Accepted** The SG will review the burden associated with implementing line manager chain approvals for contracted business travel. Line managers are already expected, but are not mandated, to approve business travel prior to booking. A high level of scrutiny for prospective corporate travel was put in place in response to current spending controls, and places responsibility on Heads of Divisions. Directors are already required to approve domestic flights. Any fraudulent activity, where uncovered, may lead to dismissal of the employee. All expenses claimed via the new Oracle Expenses system require line manager approval and the new system will require expense claims not submitted within 90 days of travel to be audited by the Travel and Subsistence team. Responsible officer: Head of Facilities Services Division Agreed date: Work is in progress. A review of the corporate travel booking policy will be considered by 30 June 2025.
4. Whole of Government Accounts (WGA) In recent years the audit opinion on the WGA assurance statement has been qualified	The Scottish Government need to strengthen the WGA process and engage with the associated audit to support the timely delivery and resolve the recent	**Accepted** WGA processes follow those of annual accounts and extended financial reporting timescales created a backlog. A pragmatic

Issue / risk	Recommendation	Agreed management action / timing
and the audit work has been delayed. Risk – The reputation of the Scottish Government is impacted by non-delivery of WGA information.	qualified audit assurance statements. Paragraph 83	approach was taken to the prior years, and we will refocus on 2023-24 WGA with work commencing when the Consolidated Accounts are finalised. We welcome earlier reporting and structured timelines for accounts and audit and will continue to engage on forward planning. While work to improve the timeliness and completeness of WGA data is progressing, technical issues with the HM Treasury OSCAR system continue, however, and we have strengthened relationships with the HM Treasury team to try to address recurring problems and to ensure prompt action when issues occur. Responsible officer: Deputy Director, Risk, Control and Assurance Agreed date: December 2024
5. Consolidated public sector financial information The Scottish Government has progressed the collation of public sector financial information and now needs to assess whether this pragmatic approach meets the needs of stakeholders. Risk – Stakeholders continue to seek additional transparency on financial information for the Scottish public sector.	The Scottish Government should reflect on the stakeholder consultation and prepare and publish consolidated 2023/24 financial information. Paragraph 89	**Accepted** We will share the draft 2022-23 reporting produced in May with other interested stakeholders as a base for development, highlighting where there may be scope and interest, and we will build on that for a 2023-24 report which will follow Final Outturn reporting. Responsible officer: Deputy Director, Risk, Control and Assurance

Issue / risk	Recommendation	Agreed management action / timing
		Agreed date: Work is in progress; a target of January 2025
6. Priorities and outcomes There are a multitude of commitments highlighted in the Policy Prospectus and Programme for Government together with others captured in a range of key strategies. There is an absence of clearly defined performance measures with measurable targets for all priority areas. Risk – The complicated landscape of priorities could impact on the achievement of outcomes.	The Scottish Government needs to clarify its priorities and have measurable targets to support the achievement of improved outcomes. Non-essential areas need to stop to enable activity and funding to be targeted at priority areas. Paragraph 157	**Accepted** The new First Minister's Programme for Government is focused specifically on four key priorities - eradicating child poverty, growing our economy, tackling the climate emergency and ensuring high quality and sustainable public services. The actions set out in the PfG are focussed on where we can have the greatest impact on progressing our four priorities and – set against the budgetary pressures we are facing – we will work to prioritise those as we develop the Scottish Budget for 2025-26. Responsible officer: Director for Strategy and Delivery and Director of Public Spending Agreed date: December 2024 (budgetary elements) and May 2026 for working it through and then throughout the full year and measuring it.
7. Performance report Although the performance report has improved there is still a need for a more transparent golden thread linking all aspects of performance and providing an overall view of progress. There is also limited continuity within the unit to drive forward progress.	The Scottish Government should ensure greater accessibility and transparency of its performance reporting within the consolidated accounts. The performance report needs to present clear targets and progress towards achieving priority outcomes. There should be continuity of corporate	**Accepted** We have sought to make improvements for this year's report and welcome the acknowledgment that the report has improved but recognise that there are still improvements to be made and are putting processes and resource in place to

Issue / risk	Recommendation	Agreed management action / timing
Risk – The performance report does not tell the story around the Scottish Government's contribution to the delivery of the National Outcomes.	knowledge and experience to ensure continuous improvement. Paragraph 165	ensure progress continues to drive forward. Responsible officer: Director for Strategy and Delivery Agreed date: June 2025

Follow-up of prior year recommendations

Issue / risk	Recommendation	Update
b/f 1. Completeness of unaudited accounts	All information should be available at the time of presenting the core schedules and consolidated accounts for audit.	**Work in progress** See Recommendation 1
b/f 2. Retained monies	The Scottish Government should strengthen arrangements the funding flows, including introducing more robust year end reconciliations.	**Implemented**
b/f 3. Consolidated public sector information	The Scottish Government needs to agree its approach to the provision of consolidated information for the Scottish public sector and agree a timetable for completion as a matter of priority.	**Work in progress** See Recommendation 5
b/f 4. Public service reform	The Scottish Government must develop a clear roadmap of how the design and delivery of public services will be transformed to be financially sustainable.	**Work in progress** Recommendations will be provided in upcoming report on Fiscal Sustainability.
b/f 5 Workforce reform	The Scottish Government needs a cohesive workforce strategy that factors in the impact of growth in the NHS.	**Work in progress** Recommendations will be provided in upcoming report on Fiscal Sustainability.
b/f 6. Governance arrangements	A review of governance and assurance arrangements within the Scottish Government should be complete to ensure they are efficient and effective.	**Implemented**

Issue / risk	Recommendation	Update
b/f 7. Corporate transformation	The Scottish Government should provide some clarity on how it will implement the Shared Services Programme in the face of increasing costs, while also ensuring that the constraints to delivery are addressed in order to avoid additional delays.	**Implemented**
b/f 8. Priorities and outcomes	The Scottish Government needs to clarify its priorities and have measurable targets to support the achievement of outcomes. Non-essential areas should be stopped.	**Work in progress** See Recommendation 6
b/f 9. Performance report	The Scottish Government should ensure greater accessibility and transparency of its performance reporting within the consolidated accounts. The performance report needs to present clear targets and progress towards achieving priority outcomes. Further there should be continuity of corporate knowledge and experience to ensure continuous improvement.	**Work in progress** See Recommendation 7

Appendix 2. Summary of uncorrected misstatements

The table below summarises uncorrected misstatements. If these errors had been adjusted, the net impact would have been to increase comprehensive net expenditure by £5.2 million and decrease net assets by £5.5 million.

Account Areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
	Dr £m	**Cr £m**	**Dr £m**	**Cr £m**
NHS Unadjusted errors	22.324	24.990	58.614	54.448
Agency unadjusted errors	0	7.557	7.557	0
SG unadjusted errors				
Student loans accrued income			5.273	5.273
Overstatement of income & expenditure	15.895	15.895	15.895	15.895
Income recorded as expenditure	2.880	2.880		
Overstatement of income and expenditure	1.300	1.300	1.300	1.300
Overstatement in fixed asset register			7.770	7.770
Overstatement in depreciation balance	0.905			0.905
Unwinding of discounted cashflow calculated incorrectly	19.712			19.712
Income balance within payables		1.041	1.041	
Receivables overstatement			7.107	7.107
Payables overstatement			0.502	0.502
Non-consolidating bodies in SG core		2.655	2.382	
Total	**63.016**	**56.318**	**107.441**	**112.912**
NHS unadjusted errors – other comp I&E		*1.500*		

Scottish Government

2023/24 Annual Audit Report

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

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

AS.4.0