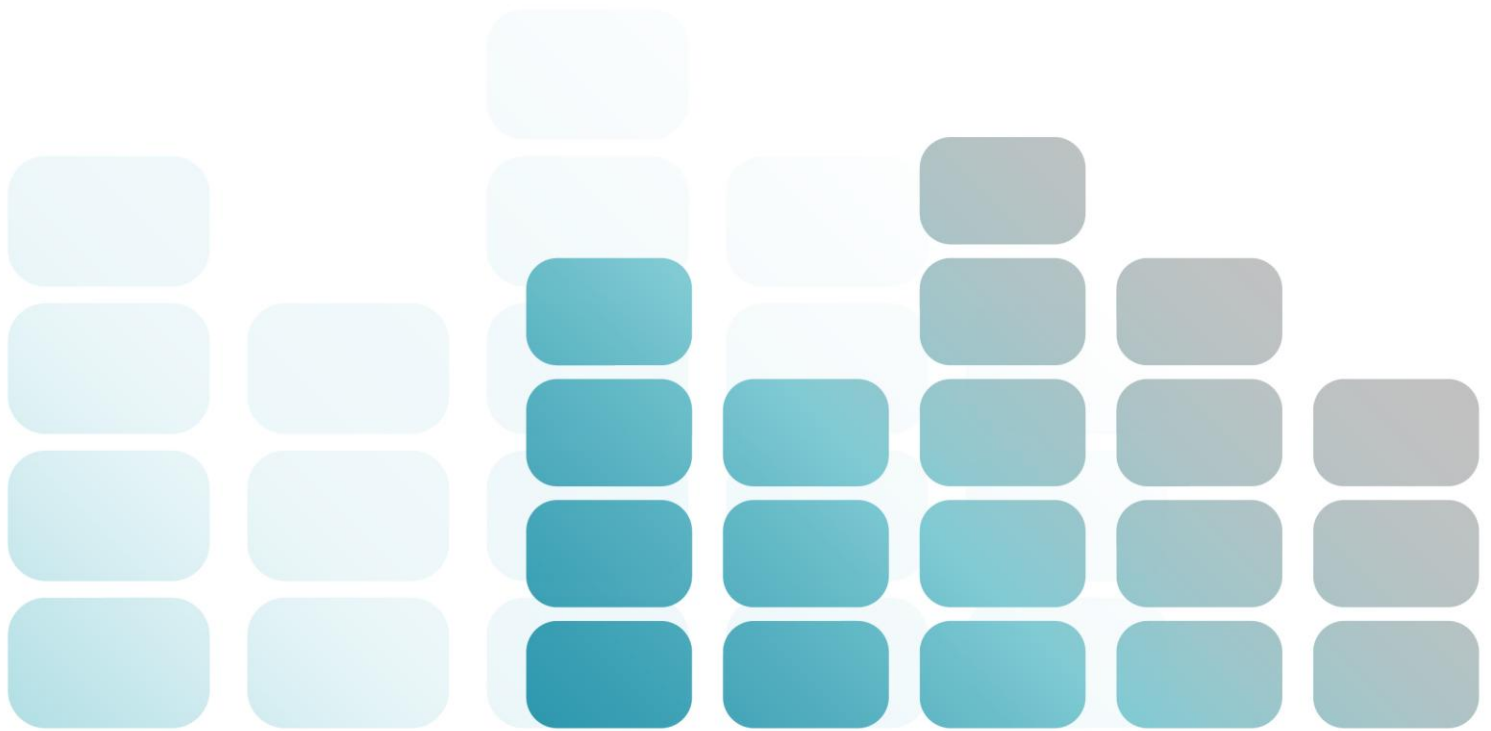


# Scottish Government

Annual Audit Plan 2025/26



 AUDIT SCOTLAND

Prepared for the Scottish Government

March 2026

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# Introduction

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## Purpose of the Annual Audit Plan

**1.** This Annual Audit Plan provides an overview of the planned scope and timing of the 2025/26 audit of the Scottish Government. When we refer to the audit of the Scottish Government, we mean the Scottish Government and its bodies within the Scottish Government accounting boundary. The boundary comprises: the internal Scottish Government portfolios; executive agencies; the Crown Office and Procurator Fiscal Service and the NHS bodies responsible for the planning, promotion, commissioning, and delivery of healthcare.

## Appointed auditor and independence

**2.** Stephen Boyle, Auditor General for Scotland, is the auditor of the Scottish Government. Carole Grant is the engagement lead responsible for delivery of the audit. The 2025/26 financial year is the fourth of the five-year audit appointment.

**3.** All members of the audit team are independent of the Scottish Government in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors and Audit Scotland has robust arrangements in place to ensure compliance. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**4.** The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships, pertaining to the audit of the Scottish Government, that we would be required to communicate.

## Communication of fraud or suspected fraud

**5.** In line with ISA 240, in presenting this plan to the Scottish Government Audit and Assurance Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. Should members of the committee have any such knowledge or concerns relating to the risk of fraud, we invite them to communicate this to the engagement lead for consideration. Similar assurances will also be sought as part of the audit completion process.

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# Audit scope and responsibilities

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## Scope of the audit

6. The audit is performed in accordance with the [Code of Audit Practice](#), including supplementary guidance, [International Standards on Auditing \(UK\)](#), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- Evaluation of the key controls within the main accounting systems.
- An audit of the Scottish Government Consolidated Accounts and an opinion on whether they give a true and fair view and are free from material misstatement.
- Providing audit opinions on regularity, and on statutory other information published with the financial statements in the consolidated accounts, including the Performance Report, Governance Statement, and the audited part of the Remuneration and Staff Report.
- Conclusions on the Scottish Government's arrangements in relation to the wider scope areas: Financial Management and Sustainability; Vision, Leadership, and Governance; and Use of Resources to Improve Outcomes.
- Providing assurance on the Scottish Government's Whole of Government Accounts UK return.
- Provision of an Annual Audit Report setting out significant matters identified from the audit.

## Responsibilities

7. The Code of Audit Practice sets out the respective responsibilities of the auditor and the Scottish Government. A summary of the key responsibilities is outlined below.

### Auditor's responsibilities

8. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the consolidated accounts and concluding on the Scottish Government's arrangements in place for the wider scope areas.

## Scottish Government's responsibilities

**9.** The Scottish Government's consolidated accounts report the financial outturn compared to spending plans of Scottish Ministers as set out in the annual budget approved by the Scottish Parliament in the Budget (Scotland) Act. The Scottish Government is responsible for maintaining adequate accounting records and internal controls and preparing consolidated financial statements for audit that give a true and fair view.

**10.** The Scottish Government also has responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of consolidated accounts, comprising financial statements that give a true and fair view and other information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

**11.** The audit of the consolidated accounts does not relieve management or the Scottish Government Audit and Assurance Committee, as those charged with governance, of their responsibilities.

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# Audit of the consolidated accounts

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## Materiality

**12.** The consolidated accounts are an essential part of demonstrating the Scottish Government's stewardship of resources and its performance in the use of those resources.

**13.** The audit of the consolidated accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This section of the plan outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

**14.** The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the consolidated accounts.

**15.** Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

**16.** The materiality levels determined for the audit of the Scottish Government are outlined in [Exhibit 1](#).

## Exhibit 1

### Materiality levels for the 2025/26 audit

Materiality	Value
<b>Materiality:</b> Based on an assessment of the needs of users of the financial statements and the nature of the Scottish Government's operations, gross expenditure has been used to determine materiality. Materiality has been set at 2 per cent of gross expenditure in the audited 2024/25 financial statements.	£550 million
<b>Performance materiality:</b> This acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, this has been set at 50 per cent of materiality.	£275 million
<b>Reporting threshold:</b> We are required to report to those charged with governance on all unadjusted misstatements greater than the reporting threshold amount.	£1 million

Source: Audit Scotland

## Group audit

**17.** As group auditors, we are required under *ISA (UK) 600: Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the consolidated financial statements.

**18.** The Scottish Government has a group which comprises bodies within the Scottish Government accounting boundary. Risk assessment procedures have been performed on the group as part of our audit planning work to identify if there are any risks of material misstatement to the group financial statements.

**19.** The audits of the financial information of these components are performed by other auditors and, as in previous years, we plan to place reliance on the work of the component auditors as required. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to establish our group audit opinion.

**20.** Where audit procedures are required on a component's financial statements, and the component auditor is different to the Scottish Government appointed auditor, group audit instructions will be issued to the component auditor outlining expectations and requirements in performing these audit procedures.

## Significant risks of material misstatement to the financial statements

**21.** The risk assessment process draws on the audit team's cumulative knowledge of the Scottish Government, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

**22.** Based on the risk assessment process, significant risks of material misstatement to the consolidated financial statements have been identified. These are the risks which have the greatest impact on the planned audit approach. [Exhibit 2](#) summarises these risks and the audit procedures we plan to perform to gain assurance over them.

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### Exhibit 2

#### Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
<p><b>1. Fraud caused by management override of controls</b></p> <p>As set out in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to override controls that otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in all audits.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries.</li> <li>• Test journals entries, focusing on those that are higher risk, such as those affecting revenue and expenditure recognition at the year-end.</li> <li>• Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Undertake focused testing of accounting accruals and prepayments.</li> <li>• Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for management bias.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Review component auditor questionnaires and consolidation packs.</li> <li>• Evaluate and review the work of component auditors where appropriate.</li> </ul>

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Risk of material misstatement	Planned audit response
<p><b>2. Risk of fraud in expenditure due to the complexity of expenditure streams</b></p> <p>Practice Note 10 extends the requirements of ISA 240 to include the consideration of fraud in expenditure for public bodies. The Scottish Government has a high volume and diverse range of expenditure, including the consolidation of the Scottish social security system. There exists a risk that expenditure could be misstated in the financial statements.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Review the Scottish Government's assessment of fraud within the financial statements.</li> <li>• Conduct analytical procedures across expenditure streams to support detailed testing.</li> <li>• Substantively test expenditure transactions.</li> <li>• Undertake focused testing of accounting accruals and prepayments.</li> <li>• Review component auditor questionnaires and consolidation packs.</li> <li>• Evaluate and review the work of component auditors where appropriate.</li> </ul>
<p><b>3. Estimation and judgement in the valuation of student loans</b></p> <p>There is a significant degree of estimation and judgement in the valuation of the material account area of student loans.</p> <p>The student loan book value within the Scottish Government Consolidated Accounts was valued at £6.929 billion based on the valuation model run by the Department for Education (DfE).</p> <p>The DfE has introduced a new valuation model with a different methodology reflecting more recent data. This new model will be used to calculate the loans book value for the Scottish Government Consolidated Accounts for the first time in 2025/26.</p> <p>The assumptions used in the valuation model are highly dependent on the macroeconomic environment and as a result may vary in the short-term increasing the risk of material misstatement.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Undertake a detailed review of the assumptions and application of the new student loans model.</li> <li>• Assess and where relevant test the management controls in place for the new student loans model.</li> <li>• Engage with other audit agencies to develop a robust assurance framework for the new valuation model.</li> <li>• Undertake focused substantive testing of student loans transactions and balances.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Consider the appropriateness of the student loans provision including the movement from the prior year.</li> <li>• Review fair value student loan asset adjustments.</li> </ul>

Risk of material misstatement	Planned audit response
<p><b>4. Estimation and judgement in the valuation of property, plant and equipment</b></p> <p>There is a significant degree of subjectivity in the valuation of property, plant and equipment across components in the group, including the consolidation of the road network.</p> <p>Assets are subject to regular revaluation with indexation applied in the intervening period as appropriate.</p> <p>The valuation of the road network is technically complex and based on specialist knowledge and management assumptions.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Review component auditor questionnaires and consolidation packs.</li> <li>• Evaluate and review the work of component auditors where appropriate.</li> </ul>

Source: Audit Scotland

**23.** In addition to the risks outlined in [Exhibit 2](#), we recognise there is significant public interest in the provisions, investments and financial guarantees of the Scottish Government. There is a degree of estimation in their measurement and valuation, and we will review the basis of these estimates to ensure they are supported by robust methodologies and reflect the best available information.

## Key audit matters

**24.** The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to the Scottish Government and those charged with governance, where relevant.

**25.** The Code of Audit Practice also requires public sector auditors to communicate key audit matters. Key audit matters are those matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit. The matters determined to be key audit matters will be communicated in the Annual Audit Report.

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# Wider scope and Best Value

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**26.** Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the consolidated accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – having sound budgetary processes. We will assess the strength of the Scottish Government’s financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** –looking forward over the medium and longer term in planning the effective delivery of services. We will assess the Scottish Government’s medium to longer-term financial planning, including the impact on service delivery and achievement of outcomes.
- **Vision, Leadership and Governance** –having a clear vision and strategy with set priorities. We will consider the clarity of plans in place to deliver the vision and strategy of the Scottish Government and the effectiveness of the supporting governance arrangements.
- **Use of Resources to Improve Outcomes** –using effective planning, including working with partners, when applying resources to deliver the stated outcomes. We will assess the Scottish Government arrangements deploying resources to improve priority outcomes, meet the needs of service users, and deliver continuous improvement.

**27.** A conclusion on the effectiveness and appropriateness of arrangements the Scottish Government has in place for each of the wider scope areas will be reported in the Annual Audit Report.

## Duty of Best Value

**28.** The [Scottish Public Finance Manual](#) (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. [Best Value in public services: guidance for Accountable Officers](#) is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

**29.** Consideration of the arrangements the Scottish Government has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements in place will be reported in the Annual Audit Report.

**30.** Auditors are required to carry out a review of the 'fairness and equality' characteristic at least once during the audit appointment, and this was carried out during the 2023/24 audit. We do not currently have any plans to undertake specific thematic Best Value work during 2025/26.

## Significant wider scope risks

**31.** Our planned work on the wider scope areas is risk based and proportionate. We will focus on:

- **Sustainability** – The Auditor General for Scotland has continued to report that the Scottish Government needs to change its approach to public spending and public service delivery models to be financially sustainable. The gap between the Scottish Government's spending and funding is forecast to continue to grow. We will consider the recent spending review and provide a view on the pace and scale of public service and workforce reform. We will also consider infrastructure investment plans and how these support the longer-term provision of services through the public sector estate.
- **Sponsorship** – There remains considerable interest in Scottish Government sponsorship arrangements. We will consider the wider organisation learning from recent sponsorship activity, including the portfolio deep dives, and steps taken to strengthen the accuracy and consistency of the quarterly assessments.
- **Oracle benefit realisation** – Following the implementation of the Oracle system in October 2024, work is now underway to realise the expected benefits from the investment in the new system. We will review the post project review and benefit realisation plans.
- **Transparency in delivery** – The Scottish Government published a range of key plans over the last 12 months to provide insight on future actions and deliverables. We will review how progress is being monitored and reported, including the appropriateness of the governance arrangements in place. Further we will review the development of the consolidated public sector financial information and consider how audit recommendations are being implemented across the Scottish Government.

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# Reporting arrangements, timetable and audit fee

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## Audit outputs

**32.** The outputs from the 2025/26 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to the Scottish Parliament setting out opinions on consolidated accounts.
- An Annual Audit Report to the Scottish Government and the Auditor General for Scotland setting out significant matters identified from the audit of the consolidated accounts, conclusions from the wider scope work, and recommendations for improvement.
- A section 22 report to the Public Audit Committee on the audit of the Scottish Government Consolidated accounts.

**33.** The matters to be reported in the outputs will be discussed with the Scottish Government to confirm their factual accuracy before they are issued. All outputs from the audit will be published on [Audit Scotland's website](#), apart from the Independent Auditor's Report (commonly known as the audit certificate) which will be included in the audited consolidated accounts and signed by the Auditor General for Scotland.

**34.** [Exhibit 3](#) outlines the target dates for our audit outputs. We will issue our outputs in sufficient time to enable scrutiny by the Audit and Assurance Committee.

**Exhibit 3****2025/26 Audit outputs**

Audit Output	Target date	Audit and Assurance Committee Date
Annual Audit Plan	31 March 2026	2 March 2026
Management letter	30 June 2026	1 June 2026
Independent Auditor's report	31 October 2026	w/c 5 October 2026
Annual Audit Report	31 October 2026	w/c 5 October 2026
Section 22 report on the 2024/25 audit of the Scottish Government Consolidated Accounts	31 October 2026	w/c 5 October 2026
Assurance statement on the Whole of Government Accounts	To be confirmed	Not applicable

Source: Audit Scotland

**Audit timetable**

**35.** As reported in our 2024/25 Annual Audit Report, the unaudited 2024/25 Scottish Government Consolidated Accounts were provided to audit on 29 August 2025, with the core schedules and sections of the annual report provided from 27 June 2025, in line with the agreed timetable. However, there were revisions made to the unaudited core schedules for non-audit adjustments by finance staff which resulted in additional work for the audit team.

**36.** We are engaging with Scottish Government finance staff to ensure an efficient and timely approach for the 2025/26 audit. A key element of this is a focus on the provision of a complete and accurate set of core schedules and working papers by the end of June 2026 to enable the external audit team to substantially complete our audit of these schedules prior to the consolidated accounts being provided at the end of August 2026. Failure to provide a complete set of core schedules in line with the agreed audit timetable or substantial delays of a significant amount of the schedules may result in an additional audit fee or a delay to the conclusion of the audit of the 2025/26 Scottish Government Consolidated Accounts.

**37.** [Exhibit 4](#) includes a timetable for the 2025/26 audit. Target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with the Scottish Government and reported to those charged with governance, as appropriate.

## Exhibit 4

### Annual report and accounts timetable

Key stage	Target Date
Receipt of core schedules with complete working papers package	26 June 2026
Receipt of the consolidated performance report, accountability report including remuneration and staff report and governance statement	3 August 2026
Receipt of the unaudited consolidated annual report and accounts with complete working papers package	28 August 2026
Issue draft annual audit report for clearance discussion	9 September 2026
Final clearance meeting with the Chief Financial Officer	16 September 2026
Agreement of audited and unsigned consolidated annual report and accounts	21 September 2026
Issue of annual audit report, letter of representation and proposed independent auditor's report to those charged with governance	28 September 2026
Consideration of audited Consolidated Accounts and audit reporting by those charged with governance	w/c 5 October 2026
Independent Auditor's Report signed	w/c 5 October 2026

Source: Audit Scotland

## Audit fee

**38.** The Scottish Government's audit fee is determined in line with Audit Scotland's fee setting arrangements. The audit fee for the 2025/26 audit has been set at the baseline level of £1,479,120 (2024/25: £1,594,599). Note that the prior year audit fee included an additional non-recurring element of £177,464 due to the additional audit procedures required for the implementation of Oracle.

**39.** In setting the fee, we have taken account of the risk exposure of the Scottish Government. We have also assumed that the Scottish Government has effective governance arrangements in place and the accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, a supplementary fee may be levied.

**40.** We have not currently captured any additional work required on the new student loan model within the above audit fee. Discussions are

underway with other audit agencies to develop an efficient assurance framework. If this work cannot be accommodated within the planned audit resources an additional audit fee will be agreed with the Chief Financial Officer and reported to the Scottish Government Audit and Assurance Committee as those charged with governance.

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# Other matters

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## Internal audit

**41.** The Scottish Government is responsible for maintaining an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities. Internal audit is provided by the Scottish Government's Directorate of Internal Audit and Assurance (DIAA).

**42.** While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate.

**43.** A review of internal audit's 2025/26 audit plan was carried out to identify if there were any areas where the audit team could rely on its work for financial statements assurance. The audit team concluded that it will not rely on internal audit's work for financial statements assurance. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

**44.** Areas of interest for 2025/26 include:

- Fiscal sustainability
- Public Service Reform (Delivery)
- Cyber Security and Resilience
- Workforce Planning
- Sponsorship – Portfolio Accountable Officer Responsibilities

## Audit quality

**45.** Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

**46.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

**47.** To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

**48.** Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

**49.** Audit Scotland may periodically seek the views of the Scottish Government on the quality of audit services provided. The audit team would also welcome feedback at any time, and this should be directed to Carole Grant as the Engagement Lead.

# Scottish Government

Annual Audit Plan 2025/26



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