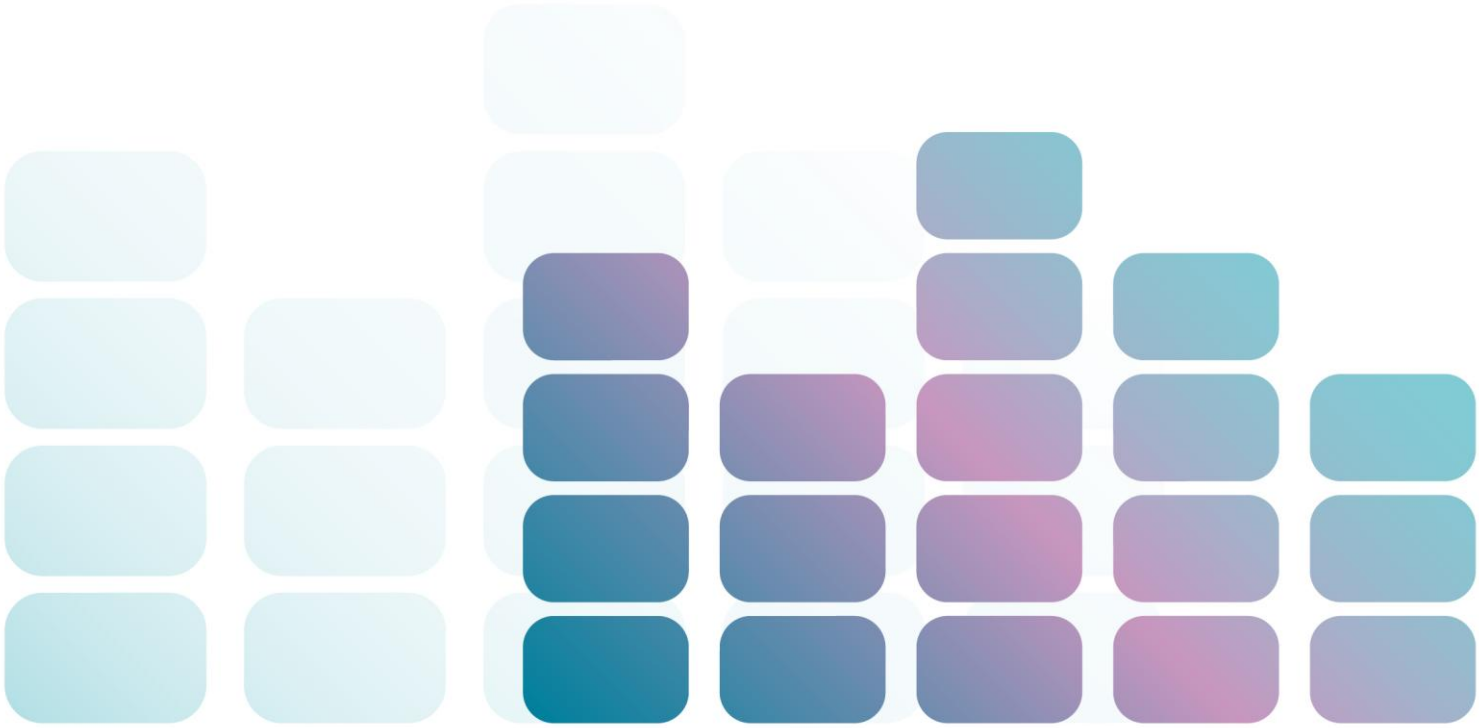
Scottish Consolidated Fund

2025/26 Annual Audit Report



AUDIT SCOTLAND

Prepared for the Scottish Government and the Auditor General for Scotland
September 2026

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Summary of audit opinions and conclusions

Audit of the annual report and accounts

1 Audit opinions on the 2025/26 Scottish Consolidated Fund accounts are unmodified.

2 There were no significant findings or key audit matters to report. We have no unadjusted misstatements to report.

Financial sustainability and governance

3 There was an in-year surplus of receipts over payments of £17 million during 2025/26. This increased the Scottish Consolidated Fund cash balance to £283 million at 31 March 2026. We are content that the Scottish Consolidated Fund has arrangements in place to manage the overall cash position.

4 We concluded that the information in the Governance Statement complies with the guidance issued by Scottish Ministers.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2025/26 audit of the Scottish Consolidated Fund accounts and the wider scope areas specified in the Code of Audit Practice (2021).The report is addressed to the Scottish Government and the Auditor General for Scotland and will be published on the Audit Scotland website.

Scope of the Audit

2. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. The scope of the 2025/26 audit was set out in our Annual Audit Plan presented to the March 2026 meeting of the Scottish Government Audit and Assurance Committee (SGAAC), and includes:

- An audit of the financial statements and the issue of an Independent Auditor's Report setting out audit opinions on the financial statements, including the regularity of receipts and payments.
- An opinion on statutory other information published with the financial statements in the Scottish Consolidated Fund accounts.
- Concluding on the financial sustainability of the Scottish Consolidated Fund and a review of the Governance Statement.
- Providing assurance on the Whole of Government Accounts (WGA) return.

Appointed auditor and independence

3. Carole Grant, Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of the Scottish Consolidated Fund for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, Carole and the audit team are independent of the Scottish Government in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of any member of the audit team, including the provision of non-audit services.

Responsibilities and reporting

4. 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

5. 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 Scottish Consolidated Fund accounts.

6. Weaknesses or risks identified in this report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve management or SGAAC, as those charged with governance, of the responsibilities set out below.

Scottish Government's responsibilities

7. The Scottish Consolidated Fund receives sums which have been voted by the UK Parliament as well as receipts collected from other sources such as devolved taxes and Scottish Income Tax. Sums paid out of the Fund are used to support spending plans approved by the Scottish Parliament in the annual Budget Act. The Scottish Government has stewardship of these funds and prepares the Scottish Consolidated Fund accounts, reflecting all receipts into and payments out of the Fund.

8. The Scottish Government is responsible for maintaining accounting records and preparing the Scottish Consolidated Fund accounts in accordance with the accounts direction issued by Scottish Ministers. The Scottish Government is also responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity.

National and performance audit reporting

9. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest. Details of national and performance audit reports published over the last year can be seen in Appendix 1.

Acknowledgements

10. We would like to thank the Scottish Government and its staff, particularly those involved in preparation of the Scottish Consolidated Fund accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit of the accounts

Main judgements

All audit opinions on the 2025/26 Scottish Consolidated Fund accounts are unmodified.

There were no significant findings or key audit matters to report. We have no unadjusted misstatements to report.

Audit opinions on the annual accounts are unmodified

11. SGAAC approved the Scottish Consolidated Fund 2025/26 Accounts on 7 September 2026. The Independent Auditor's Report included the following audit opinions on the accounts:



- the financial statements properly present, in accordance with applicable legislation and directions made thereunder by the Scottish Ministers, the receipts and payments of the Fund for the year ended 31 March 2026 and the balances held at that date
- in all material respects the sums paid out of the Fund were applied in accordance with applicable enactments and guidance issued by the Scottish Ministers
- the information given in the Foreword and Governance Statement is consistent with the financial statements and has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000.

The 2025/26 accounts audit was completed in line with the agreed audit timetable

12. The unaudited Scottish Consolidated Fund 2025/26 accounts were provided on 29 May 2026 in line with the agreed audit timetable. The accounts and working papers presented for audit were of a good standard and finance staff supported the team during the audit process. This helped ensure that the final accounts audit was completed in line with the agreed audit timetable.

The fee for the 2025/26 external audit was £27,670

13. The fee for the 2025/26 external audit was reported in the Annual Audit Plan and was set at the baseline level of £27,670. There have been

no developments that have impacted on the planned audit work required, therefore the audit fee remains unchanged.

Materiality was reviewed on receipt of the accounts and revised to £280 million

14. 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 accounts.

15. The concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the accounts. 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. Materiality levels for the audit of the Scottish Consolidated Fund were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were recalculated on receipt of the unaudited 2025/26 accounts and the revised materiality levels calculated are shown in Exhibit 1.

Exhibit 1
Materiality levels for the 2025/26 audit

Materiality type	Value
Overall materiality: Based on an assessment of the needs of users of the accounts and the nature of the Funds operations, total payments have been used as the basis for calculating materiality. Overall materiality for the 2025/26 audit was 0.5 per cent of the total Fund payments.	£280 million (up from £260 million)
Performance materiality: This acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, further audit procedures are considered. Performance materiality was set at 75 per cent of overall materiality.	£210 million (up from £195 million)
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements greater than the reporting threshold amount. Due to the public interest this was capped at £1 million.	£1 million (no change)

Source: Audit Scotland

Our audit identified and responded to the risks of material misstatement

17. Exhibit 2 sets out the significant risk of material misstatement identified for the 2025/26 audit of the Scottish Consolidated Fund accounts, summarises the further audit procedures we performed to obtain assurances over this risk, and details the outcome of this work.

Exhibit 2
Significant risk of material misstatement to the financial statements

Risk of material misstatement	Audit response	Outcome of audit work
Fraud caused by management override of controls 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. This is presumed to be a significant risk in all audits.	The audit team: • Evaluated the design and implementation of controls over journal entry processing. • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Tested journal entries and other adjustments during the financial year. • Evaluated significant transactions outside the normal course of business. • Substantively tested receipts and payments.	Audit testing did not identify any evidence of management override of controls.

Source: Audit Scotland

There were no significant findings from the audit of the accounts to be reported

18. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged with governance, which for the Scottish Consolidated Fund is SGAAC.

19. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements.

20. In determining key audit matters, auditors consider areas of higher or significant risk of material misstatement, areas where significant judgement is required, including accounting estimates that are subject to a

high degree of estimation uncertainty and significant events or transactions that occurred during the year.

21. There were no significant findings from the audit of the Fund accounts to be reported.

22. Our audit identified presentational and disclosure matters, including suggested improvements to the narrative explanations in the Fund accounts. These were discussed with management, and all were adjusted and satisfactorily addressed in the audited Scottish Consolidated Fund 2025/26 accounts.

23. During the audit, we identified that the final National Loans Fund repayment due from Registers of Scotland to the Secretary of State for Scotland had been made directly during 2024-25, bypassing the Fund. We have reminded the Scottish Government of the importance of the correct flow of funds laid out in legislation.

24. The narrative at Note 11 of the unaudited accounts was subsequently updated to reflect this transaction and clarify the borrowing position. As only the actual receipts and payments of the Fund are presented, the accounts are correctly stated.

We have no unadjusted misstatements to report

25. It is our responsibility to request that all misstatements above our reporting threshold are corrected, although the final decision on making the correction lies with those charged with governance. We have no unadjusted misstatements to report.

There are no prior year recommendations

26. There are no outstanding recommendations from prior years.

Financial sustainability and governance

Conclusion

There was an in-year surplus of receipts over payments of £17 million during 2025/26. This increased the Scottish Consolidated Fund cash balance to £283 million at 31 March 2026. We are content that the Scottish Consolidated Fund has arrangements in place to manage the overall cash position.

We concluded that the information in the Governance Statement complies with the guidance issued by Scottish Ministers.

Approach to wider scope audit

27. 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 includes consideration of additional aspects or risks in financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Less complex bodies approach

28. The Code of Audit Practice also includes provisions relating to the audit of less complex bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and financial sustainability.

29. As reported in our Annual Audit Plan, due to the nature of the Scottish Consolidated Fund, including the low volume and lack of complexity of the financial transactions, we concluded that the less complex bodies approach could be applied to this audit.

There was an in-year surplus of receipts over payments of £17 million during 2025/26

30. The Scottish Consolidated Fund receives a block grant from the UK's Consolidated Fund plus the operational receipts of the Scottish Government. Funding is drawn down by the Scottish Government from the

Fund to support the spending plans approved by the Scottish Parliament in the annual Budget Act. The Fund operates under the Scotland Act 1998.

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

32. The receipts paid into the Scottish Consolidated Fund during the year totalled £56,630 million with payments made from the Fund of £56,613 million. This resulted in a surplus of £17 million in 2025/26 (surplus of £46 million in 2024/25). The cash reserve balance therefore increased from £266 million to £283 million.

The amounts drawn down from the UK Consolidated Fund were within the 2025/26 UK Supplementary Estimate

33. The Scottish Consolidated Fund is operated by the Treasury and Banking Branch of the Scottish Government. Following the completion of cash flow forecasting exercises, officials make monthly drawdown requests for funding from the UK Consolidated Fund. These amounts are tracked against a maximum limit set by the UK Parliament through the Central Government Supply Estimates.

34. In 2025/26, the Scottish Consolidated Fund received funding from this source of £30,063 million, which was within the amount stated in the 2025/26 UK Supplementary Estimate. The limit is set by forecasting the cash requirement for the 2025/26 Scottish Budget. Drawing down less than the limit has no effect on the overall spending power of the Scottish Government and the wider Scottish Administration.

Several of the accounts that pay receipts into the Scottish Consolidated Fund are also subject to separate audit arrangements

35. The Scotland Act 2012 empowers the Scottish Parliament to establish Scottish Income Tax for Scottish taxpayers. Income tax earned from Scottish taxpayers is assigned to the Scottish Administration and paid into the Scottish Consolidated Fund. In 2025/26 this amounted to £21,975 million (£20,305 million in 2024/25). The total amount of devolved tax receipts (Land and Building Transaction Tax and Scottish Landfill Tax) Fund in 2025/26 was £1,084 million (£882 million in 2024/25). Further detail is published in a separate Devolved Taxes account, which is produced by Revenue Scotland and audited separately.

36. The payment of hereditary revenues from Scottish assets which are collected by Crown Estate Scotland are paid into the Scottish Consolidated Fund. There was no Crown Estate surplus transferred in

2025/26 (£13 million in 2024/25). Further detail is published in the Crown Estate Scotland annual report and accounts, which are audited separately.

37. The King's and Lord Treasurer's Remembrance (KLTR) collect the unclaimed sums arising from personal estates and sequestrated companies and, after a set period, pays them over to the Scottish Consolidated Fund. Receipts of £1.176 million from the KLTR were included in the 2025/26 fund (£0.182 million in 2024/25). Further detail is published in the KLTR annual report and accounts, which are audited separately.

38. As noted above, funding is drawn down from the Scottish Consolidated Fund to support the spending plans approved by the Scottish Parliament in the annual Budget Act. This covers payments to the Scottish Administration, Audit Scotland and the Scottish Parliamentary Corporate Body. There are other charges on the Fund including capital borrowing and national loans fund repayments, ministerial pension payments and judicial salary payments.

Overall borrowing increased to its highest level during 2025/26

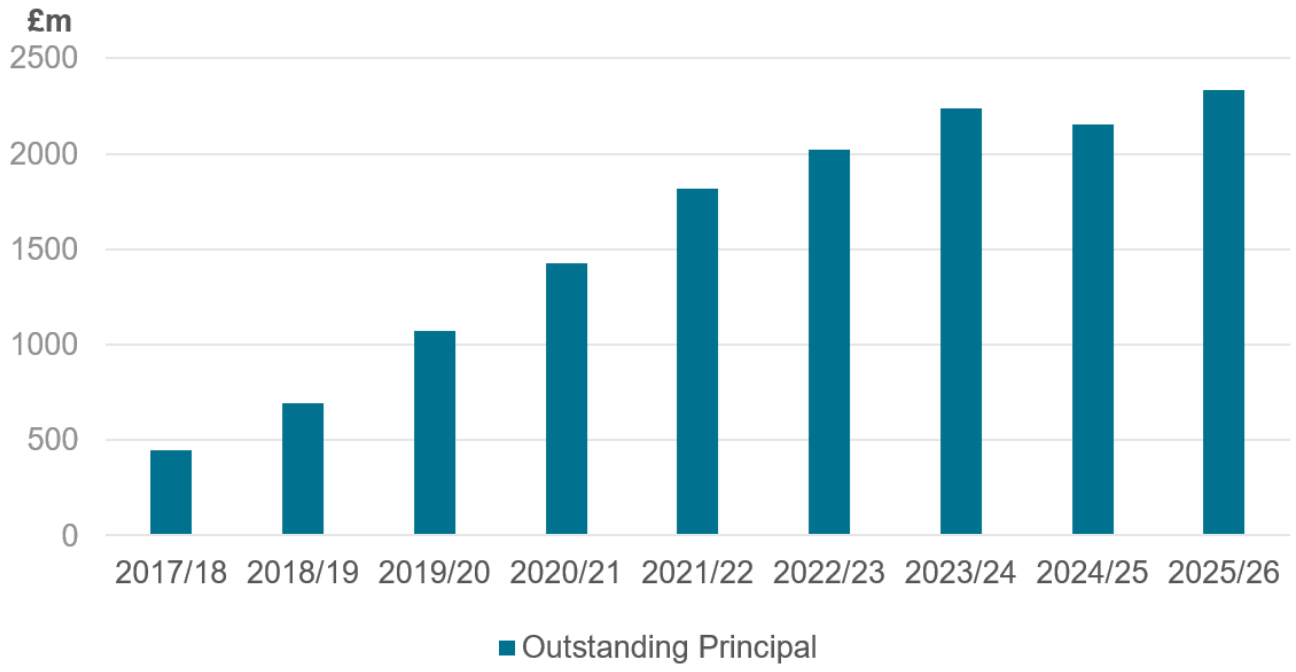
39. Under section 32 of the Scotland Act 2012, as amended by the Scotland Act 2016 section 20, additional borrowing powers were conferred on Scottish Ministers with effect from 1 April 2015. Any sums borrowed and repaid under these provisions must flow through the Scottish Consolidated Fund.

40. The first sums borrowed from the National Loan Fund were received by the Fund in 2017/18. Since then, resource and capital borrowing has continued with £430 million in new borrowing taken out during 2025/26, significantly more than the prior year borrowing of £139 million. As at 31 March 2026, the Scottish Consolidated Fund accounts disclose an outstanding balance of £2.3 billion (principal and accrued interest). This is the highest level reported since borrowing began in 2017/18.

41. Annual loan repayments are increasing; with £255 million paid in 2025/26 an increase of £32 million from 2024/25. This financial pressure needs to be managed in the years ahead.

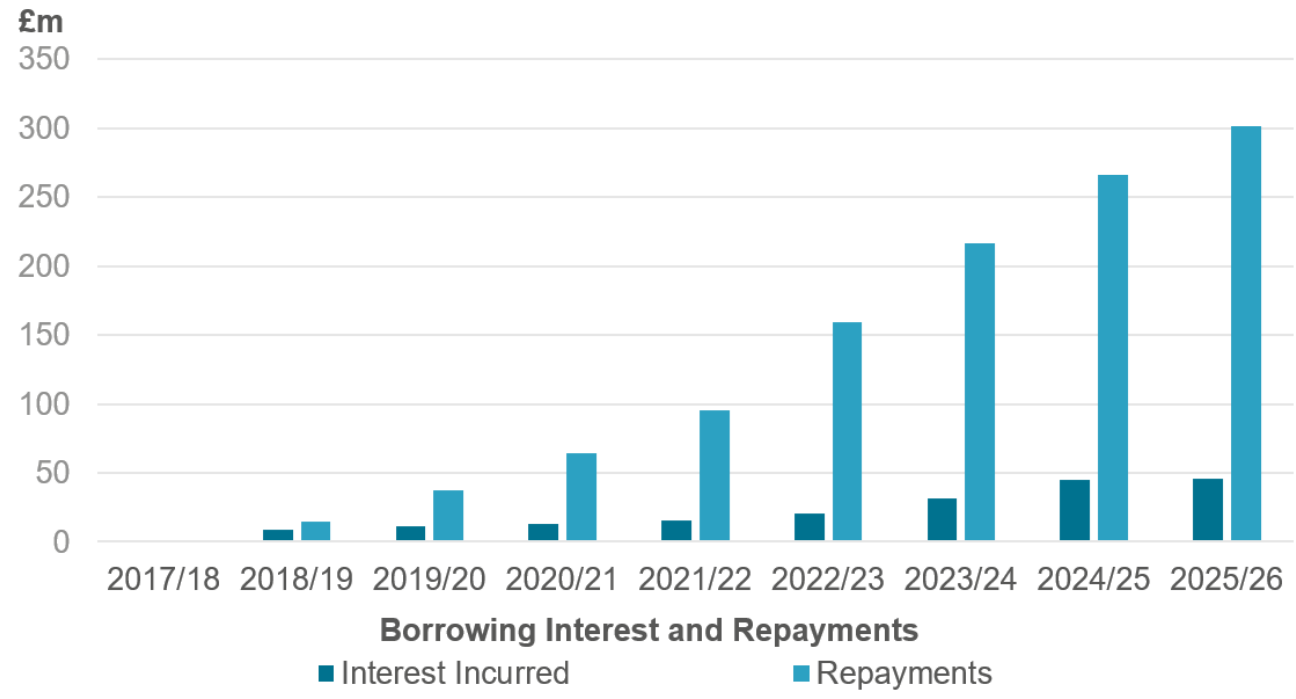
42. The movement in outstanding principal, both capital and resource, for each year can be seen in Exhibit 3. The increase in interest and repayment amounts since 2017/18 can be seen in Exhibit 4.

Exhibit 3
Outstanding principal at year end



Source: Audit Scotland analysis of Scottish Consolidated Fund Accounts

Exhibit 4
Repayments of principal and interest since 2017/18



Source: Audit Scotland analysis of Scottish Consolidated Fund Accounts

Scottish Ministers plan to issue the first bond during 2026/27

43. In November 2025 the Scottish Government announced that it would, subject to in-year borrowing requirements and market conditions, proceed with a £1.5 billion multi-year bond programme with the first issuance anticipated in late 2026 or early 2027. In June 2026 banks and legal counsel were appointed to enable the programme to proceed as planned.

44. The bond issuance will utilise powers devolved under the Scotland Act 2016, with proceeds to be used exclusively for capital investment in accordance with capital borrowing powers set out in the Fiscal Framework agreement between the Scottish and UK governments.

45. Scottish Government Bonds represent an alternative, rather than additional source of capital borrowing and are therefore subject to the same aggregate limits. Therefore, as with the current capital borrowing any proceeds and associated repayments of Scottish Government Bonds will flow through the Scottish Consolidated Fund.

46. We will continue to liaise with the Scottish Government and consider the impact on the Scottish Consolidated Fund moving forward.

The Scottish Consolidated Fund has arrangements in place to manage the overall cash position

47. The annual budget setting process sets cash allocation limits for the authorities funded by drawdowns from the Scottish Consolidated Fund, and monthly drawdowns are monitored against these limits. Requests for cash allocation increases are processed through budget revisions generating a surplus or deficit for the year.

48. As noted above, at the end of 2025/26, the Scottish Consolidated Fund recorded a surplus due to an excess of receipts over payments of £17 million (£46 million in 2024/25).

49. The Statement of Balances shows the movement and year-end position of cash. At 31 March 2026, the cash balance was £283 million (£266 million in 2024/25).

The Governance Statement complied with guidance

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

51. Although the Scottish Consolidated Fund sits outside the Scottish Government's internal governance arrangements, the operation of the

Fund is carried out within Scottish Government Finance. The Fund is therefore subject to the same controls and assurance procedures that apply to the Scottish Government. Our review of the governance statement assessed the assurances which are provided to the Scottish Government's Permanent Secretary as Principal Accountable Officer regarding the adequacy and effectiveness of the Fund's system of internal control which operated in the financial year.

52. The SPFM does not prescribe a format for the Governance Statement but sets out minimum requirements for central government bodies. The governance statement within the Scottish Consolidated Fund 2025/26 accounts complied with the minimum SPFM requirements.

53. We concluded that the information in the Governance Statement complies with the guidance issued by the Scottish Ministers. Based on our knowledge and work performed, we concluded that the statement presents an appropriate assessment of governance arrangements.

Systems of Internal Control

54. As part of our audit, we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the accounts. Our objective is to gain assurance that there are systems of recording and processing transactions in place which provide a sound basis for the preparation of the accounts.

55. As noted above, the Scottish Consolidated Fund is subject to the same controls that apply to the Scottish Government and therefore we place reliance on our findings from our Management Report presented to SGAAC in June 2026. No significant internal control weaknesses were identified during the audit which could affect the ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the Fund accounts.

Appendix 1

Supporting national and performance audit reports

Report name	Date published
Local government budgets 2025/26	22 May 2025
NHS in Scotland: Spotlight on governance	28 May 2025
Delivering for the future: Responding to the workforce challenge	7 August 2025
Flooding in communities: Moving towards flood resilience	28 August 2025
Adult Disability Payment	18 September 2025
Scotland's colleges 2025	2 October 2025
Improving care experience: Delivering The Promise	8 October 2025
Local government performance: Spotlight on culture and leisure services	23 October 2025
Financial sustainability and taxes	13 November 2025
NHS in Scotland 2025: Finance and performance	4 December 2025
Delayed discharges: A symptom of the challenges facing health and social care	8 January 2026
Community health and social care: Performance 2025	8 January 2026
Administration of Scottish income tax 2024/25	16 January 2026
Local Government in Scotland: Financial bulletin 2024/25	29 January 2026
The Scottish Budget 2026/24: Supplement to the Financial bulletin 2024/25	12 February 2026
Integration Joint Boards: Finance bulletin 2024/25	26 February 2026
Annual Assurance and Risks Report: A review of 2024/25 local government audits in Scotland	12 March 2026

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