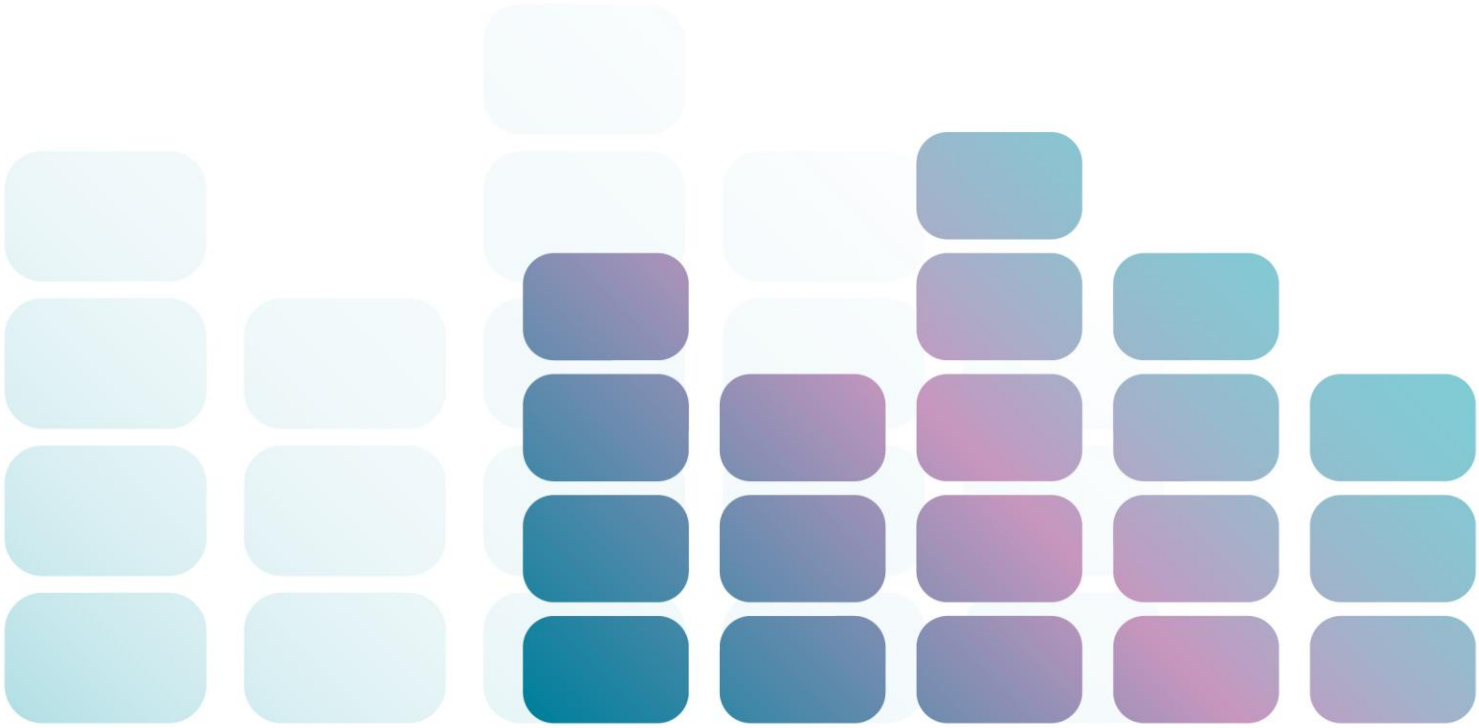
Scottish Government

2025/26 Annual Audit Report



AUDIT SCOTLAND

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

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Accessibility

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Key messages

Audit of the annual report and accounts

1 The audit opinions are unmodified. The 2025/26 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 We obtained the required assurances to address the risks of material misstatement identified from our audit planning work.

3 The move to the new valuation model contributed to the value of the student loan book reducing from £6.9 billion to £5.2 billion.

Financial management and sustainability

4 The 2025/26 Consolidated Accounts report an underspend of £591 million which differs from the provisional outturn of £358 million due to the different budget and reporting rules. The underspend was achieved without the planned use of ScotWind money.

5 Failure to achieve budgeted efficiency and reform savings, and renewed inflation, present risks to the achievement of a balanced outturn for 2026/27. Further pressures already exist for the 2027/28 budget due to the income tax outturn reconciliation which will decrease funding by £720 million. In addition, given the limited progress to date, the cladding remediation programme remains a significant future financial challenge.

6 The reliance on one-off mitigations to achieve financial balance remains a significant risk to the achievement of long-term financial sustainability. The Scottish Spending Review identifies £1.5 billion of public sector efficiencies and reforms to help address the gap between demand and available resources, however the timelines for delivery are unclear.

7 Delivering economic growth and meaningful public service reform are critical to securing the long-term sustainability of the Scottish public sector.

Vision, leadership and governance

8 There are well established assurance arrangements in place, and the Scottish Government has taken action to strengthen its focus on priorities that cut across portfolios.

9 Internal audit provided a limited assurance opinion for 2025/26 with work required to address the identified weaknesses in the current risk, governance and control procedures that could affect the delivery of related objectives.

10 The Oracle post-implementation review identified lessons that should be considered for future public sector projects. The Scottish Government must now deliver on the anticipated benefits from its investment in the system.

11 The Scottish Government has continued to strengthen sponsorship arrangements.

12 Additional detail is required on the Programme for Government 2026-2031 proposals to rationalise the public bodies landscape, including the associated timelines and expected impact. The plans should be informed by lessons learned from previous large-scale reorganisation and reforms in Scotland.

Use of resources to improve outcomes

13 The Scottish Government has not yet concluded the review of the National Performance Framework. In its absence it is difficult to assess the impact of spending on outcomes.

14 The Performance Report within the Consolidated Accounts has significantly improved.

15 The Strategic Commercial Assets Division has worked to improve the transparency of economic intervention activity with the establishment of a Transparency Assurance Panel.

16 The forecast cost to complete MV Glen Rosa has increased again to £197.5 million, and the expected handover date is now February 2027.

Introduction

Purpose of the Annual Audit Report

1. This Annual Audit Report sets out the findings from the 2025/26 audit of the Scottish Government's annual report and accounts and the four wider scope areas specified in the Code of Audit Practice of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

2. The report is addressed to the Scottish Government and the Auditor General for Scotland and will be published on Audit Scotland's website.

Appointed auditor and independence

3. Stephen Boyle, Auditor General for Scotland, is the auditor of the Scottish Government and Carole Grant, Audit Director, is the engagement lead responsible for the delivery of the audit. 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 the engagement lead or the rest of the audit team, including the provision of non-audit services.

Acknowledgements

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

Audit scope, responsibilities, and fee

Scope of the audit

5. 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 providing an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure.
- An opinion on the audited part of the Remuneration and Staff Report and on the statutory other information published with the financial statements in the annual report and accounts, namely the Performance Report and Governance Statement.
- Conclusions on the Scottish Government's arrangements for securing Best Value and in relation to the wider scope areas.
- Providing audit assurance on the Whole of Government Accounts submission.

Responsibilities and reporting

6. The Code of Audit Practice sets out the following respective responsibilities of the auditor and the Scottish Government.

Auditor's responsibilities

7. 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 annual report and accounts and concluding on the arrangements in place for the wider scope areas and Best Value.

8. This report includes an action plan at Appendix 1. This sets out specific recommendations to address matters identified during our audit including details of the agreed actions, responsible officer and implementation date.

9. Weaknesses or risks identified in this report are only those that have been identified during normal audit work and may not be all that exist. Communicating these does not absolve management of their responsibilities.

Scottish Government's responsibilities

10. The Scottish Government 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 and for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Preparation of an annual report and accounts that are in accordance with the Accounts Direction from Scottish Ministers.
- Implementing arrangements to ensure its financial position is soundly based, making arrangements to secure Best Value and establishing an internal audit function.

Audit Fee

11. The audit fee for the 2025/26 audit was reported in the Annual Audit Plan and was set at the baseline level of £1,479,120. There have been no developments that significantly impacted upon the planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

National and performance audit reporting

12. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. Details of the audit reports published over the last year can be seen in Appendix 3.

1. Audit of the consolidated accounts

Main judgements

The audit opinions are unmodified. The 2025/26 Scottish Government Consolidated Accounts show a true and fair view, follow accounting standards, and that the income and expenditure for the year is lawful.

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

The move to the new valuation model contributed to the value of the student loan book reducing from £6.9 billion in 2024/25 to £5.2 billion this year.

Audit opinions on the annual report and accounts are unmodified

13. The annual report for the year ended 31 March 2026 was presented to SGAAC on 5 October 2026 and formally considered in an extraordinary meeting on 13 November 2026 to support the conclusion of the audit. 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.

There were delays to the conclusion of the audit of the Consolidated Accounts

14. The unaudited 2025/26 Scottish Government Consolidated Accounts were provided to audit on 28 August 2026, with the core schedules and sections of the annual report provided from 26 June 2026, in line with the

agreed timetable. While the working papers provided were generally of a good standard, issues were again encountered with the quality of the supporting schedules and reconciliations provided for the non-current assets, receivables and payables balances, which resulted in additional work for the audit team. These issues were managed by the audit team, with support from finance staff, and did not impact on the timetable for completion of the audit.

15. However, the conclusion of the audit was delayed due to the timing of receipt of pension information from Capita for the Remuneration and Staff Report, and the conclusion of our audit work to support the student loans valuation. This included consideration of the audit conclusions for the Department for Education who provide the student loans valuation model. The Scottish Government Consolidated Accounts were signed on 16 November 2026.

16. We will continue to work with finance staff during 2026/27 to clarify our working paper requirements in support of the non-current assets, receivables and payables year-end balances and to agree what supporting schedules will be provided to support our audit testing.

Materiality was reviewed on receipt of the Consolidated Accounts and revised to £620 million

17. 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 annual report and accounts.

18. 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.

19. Our initial assessment of materiality for the audit of the 2025/26 Scottish Government Consolidated Accounts was carried out during the risk assessment and planning phase of the audit and reported in the Annual Audit Plan. This was reviewed on receipt of the unaudited accounts and materiality levels were updated to those detailed in Exhibit 1.

Exhibit 1
2025/26 Materiality levels for the Scottish Government Consolidated Accounts

Materiality	Amount
Materiality: Set at 1 per cent of gross expenditure	£620 million
Performance materiality: Set at 50 per cent of materiality. This acts as a trigger point. If the aggregate of misstatements exceeds performance materiality, further audit procedures are considered.	£310 million
Reporting threshold: 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

Our audit identified and responded to the significant risks of material misstatement

20. Exhibit 2 sets out the significant risk of material misstatement we identified for the 2025/26 Scottish Government Consolidated Accounts. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the outcome of this work.

Exhibit 2
Significant risks of material misstatement to the Consolidated Accounts

Risk	Audit response	Outcome of audit work
1. 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, focusing on those that are higher risk, such as those affecting revenue and expenditure recognition at the year-end.	• No issues were identified from our consideration of journal activity, or substantive testing of journal entries, accruals, prepayments, income and expenditure. • No issues were identified from our cut-off testing of income and expenditure transactions around the year-end. • Our assessment of changes to the methods and underlying assumptions used to prepare accounting estimates was satisfactory, however:

Risk	Audit response	Outcome of audit work
	• Substantively tested income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Undertook focused testing of accounting accruals and prepayments. • Assessed changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for management bias. • Evaluated significant transactions outside the normal course of business. • Reviewed component auditor questionnaires and consolidation packs. • Evaluated and reviewed the work of component auditors where appropriate.	- We identified seven issues for reporting relating to estimates in the accounts – see points 1, 2, 3, 4, 7, 8, 9 and 10 in Exhibit 3 and paragraphs 25. to 27. These issues did not represent an attempt by management to override controls. • We did not identify any significant transactions outside the normal course of business. • No issues were identified from our review of the work of component auditors. **We obtained sufficient assurance from the audit procedures performed to support our audit opinion.**
2. Risk of fraud in expenditure due to the complexity of expenditure streams 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.	The audit team: • Reviewed the Scottish Government's assessment of fraud within the financial statements. • Conducted analytical procedures across expenditure streams to support detailed testing. • Substantively tested expenditure transactions. • Undertook focused testing of accounting accruals and prepayments. • Reviewed component auditor questionnaires and consolidation packs. • Evaluated and reviewed the work of component auditors where appropriate.	• No issues were identified from our analysis of expenditure streams and substantive testing of transactions. • No issues were identified from our substantive testing of accruals and prepayments. • We reviewed the social security error and fraud position and, as detailed at issue 5 in Exhibit 3, we concluded that no Emphasis of Matter paragraph is required in the Consolidated Accounts as the levels of fraud and error are not material and we do not consider it to be fundamental to users' understanding of the Consolidated Accounts.

Risk	Audit response	Outcome of audit work
		We obtained sufficient assurance from the audit procedures performed 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. 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). 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. 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.	The audit team: • Completed a review of DfE as a management expert in respect of provision of the student loans model. • Reviewed the reasonableness of the methods and significant assumptions used in the model, including agreeing macroeconomic determinants and forecasts to external evidence, and challenging management on the impact of using more recently available forecasts. • Reviewed the relevance and reliability of the key data inputs used in the model, testing for completeness and accuracy where required. • Compared actual repayments in 2025/26 and Q1 2026/27 to the amounts forecasted by the model. • Reviewed Quality Assurance procedures undertaken by DfE and Scottish Government in respect of the model and its key data inputs. • Obtained assurance from Student Loans Company in respect of their compliance with the Service Level Agreement (SLA) with DfE in respect of the provision of borrower data for use in the model, and their internal	• No issues were identified from our assessment of DfE as a management expert. • We challenged management on the impact of using the more recently published long-term Office for Budget Responsibility's (OBR) Long-term economic determinants for the RPI and Earnings Inflation forecast assumptions. As detailed at issue 2 in Exhibit 3, management confirmed the impact would result in a £97 million decrease in the value of the student loans asset. Therefore, the impact of the new forecasts is not material to the valuation of student loans. • No issues were identified from our review of the relevance and reliability of key data inputs used in the model. • No issues were identified from our comparison of actual repayments to amounts forecasted by the model. • No issues were identified from our review of Quality Assurance procedures undertaken by DfE and Scottish Government in respect of the model and its key data inputs. • No issues were identified within the assurances provided by the Student Loans Company. • No issues were identified from our recalculation of the

Risk	Audit response	Outcome of audit work
	governance and fraud arrangements. • Recalculated the fair value adjustments posted by management using the outputs from the model. • Considered documentation provided by the National Audit Office (NAO) in respect of their 2025/26 audit of DfE.	fair value adjustments posted by management. • No issues were identified from our review of documentation provided by the NAO. **We obtained sufficient assurance from this work to support our audit opinion.**
4. 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 across components in the group, 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 based on specialist knowledge and management assumptions.	The audit team: • Reviewed component auditor questionnaires and consolidation packs. • Evaluated and reviewed the work of component auditors where appropriate.	• Our review of the component auditor questionnaires, consolidation packs and, where relevant, the component auditor's work, was satisfactory, however we noted that the disclosures in the Consolidated Accounts presented for audit did not include sensitivity analysis relating to the valuation of the trunk road network asset, as detailed at issue 7 in Exhibit 3. Management added sensitivity analysis to the disclosure notes in the audited accounts to show the impact of movements in the Baxter index on the value of the trunk road network. **We obtained sufficient assurance from this work to support our audit opinion.**

Source: Audit Scotland

21. In addition to the significant risks detailed in Exhibit 2, we recognised that there is 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 therefore we reviewed the basis of these estimates to ensure they were supported by robust methodologies and reflected the best available information.

The audit has identified significant findings and key audit matters

22. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged with governance, which for the Scottish Government is SGAAC, prior to the audited accounts being approved and certified.

23. 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.

24. The significant findings and key audit matters are detailed in Exhibit 3 and subsequent paragraphs. Our audit also identified classification errors in the notes to the accounts (i.e. balances shown against the wrong category), and other presentation and disclosure issues, which were discussed with management. These were all adjusted in the audited accounts, and none were significant enough to be separately reported under ISA260.

Exhibit 3
Significant findings and key audit matters

Issue	Resolution
1. Student loans valuation – new model There is a significant degree of estimation and judgement in the valuation of the material account area of Student Loans (2025/26: £5.245 billion). The student loan book value within the Scottish Government Consolidated Accounts is based on the valuation model run by the Department for Education (DfE). DfE introduced a new valuation model which has been used to calculate the loan book value for the Scottish Government Consolidated Accounts for the first time in 2025/26. The valuation model 'pipeline' consists of 4 sub-models, being the entrants, outlay, earnings and repayments models. The move to the new model, which included updated methodology within the earnings model, contributed towards a reduction to the loan book value from £6.929 billion at 31 March 2025 to £5.245 billion at 31 March 2026. The methodology used in the old earnings model resulted in repayments being over-forecast, overstating the valuation of the loan book.	It is our judgement that the move to the new model represents a change in accounting estimate rather than a prior period error, in line with IAS 8. Our audit procedures (set out at point 3 of Exhibit 2) demonstrate the audit work undertaken to obtain the necessary assurances over the new model. We expect to have an assurance arrangement with the NAO in place for 2026/27.

Issue	Resolution
2. Student loans valuation – model variables We reviewed the reasonableness of significant assumptions used in the model and challenged management on the use of the Office of Budget Responsibility's (OBR) Long-term economic determinants published as part of the Economic and Fiscal Outlook in May 2025 for the RPI and Earnings Inflation forecast assumptions, given that more recent forecasts were published in May 2026. Management re-ran the model and confirmed that the impact of using the May 2026 forecast figures would result in a reduction in the value of the student loans asset of £97 million. However, due to the timing of running the model to prepare the unaudited accounts management advised that it is not practical for the new long-term forecasts to be used.	Additional narrative has been added to *Note 11e. Student Loan Valuation* in the audited accounts to disclose the impact of using the more recently available forecasts. We are satisfied that the impact of the new forecasts is not material and that the assumptions used in the model were based on the most-recently available forecasts at the time.
3. Student loans valuation – postgraduate debt modelling The student loans model, which produces the percentages used to impair the student loans asset, is based on the estimated repayment levels for undergraduates. The postgraduate balance is then impaired using these same percentages. There is therefore a risk that the impairment of postgraduate balances is overstated. We also established that the Scottish Government, Student Awards Agency Scotland (SAAS) and Student Loans Company (SLC) do not currently maintain a split of the total Scottish student loan book value between undergraduate and postgraduate balances. DfE's analysis of the SLC borrower estimates a postgraduate debt balance of £496 million.	The estimate of postgraduate debt at 31 March 2026 is below our materiality. We are therefore content that any misstatement of this balance would not be material for the student loans book valuation in the 2025/26 accounts. Postgraduate debt will likely increase over time, and we expect the Scottish Government, SAAS and SLC to work with DfE to support the modelling of postgraduate debt. We recognise the complexities involved and, during 2026/27, recommend that the Scottish Government works with SLC to establish an accurate split of the total Scottish student loan book between undergraduate and postgraduate balances. **Recommendation 1**

Issue	Resolution
4. Student loans valuation – omitted financial liability Under IFRS 9. Financial Instruments, entities are required to recognise a financial liability for any "*commitments to provide a loan at a below-market interest rate*", to reflect the expected credit loss on these contractually committed payments. Our work on the student loan valuation identified that the final loan payments for the 2025/26 academic year (i.e. payments covering the period from 1 April to the end of the academic year) represent a commitment to provide loans at a below-market interest rate. Therefore, the Scottish Government should have recognised a financial liability for the estimated expected credit loss on these approved student loan payments in the 2025/26 accounts.	SAAS provided a calculation showing that the value of the 2025/26 loan payments between 1 April and the end of the academic year was £213.7 million, with the estimated liability for the credit loss of £89.5 million. Management has chosen not to adjust for this in the 2025/26 accounts and so this is reported as an unadjusted error. Had this adjustment been made it would have increased comprehensive net expenditure by £89.5 million and decreased net assets by the same value.
5. Social Security Scotland In recent years we have reported on the regularity qualification in the annual report and accounts of Social Security Scotland. For 2025/26 the auditor has concluded that, due to the transfer of benefit cases, the levels of error and fraud in the benefits administered by the Department for Work and Pensions is no longer material. This is because the same regularity issue does not affect the benefits administered by Social Security Scotland due to the different legislative basis for these benefits. The auditor has, however, included an Emphasis of Matter paragraph within the Independent Auditor's Report drawing attention to the disclosures relating to fraud and error in benefits administered by Social Security Scotland. Social Security Scotland does not yet have comprehensive arrangements to reliably estimate the levels of fraud and error across the benefit caseload. The Emphasis of Matter does not modify the audit opinion, however it highlights a matter that is fundamental to users' understanding of the financial statements. As Social Security Scotland is a component body within the Scottish Government group boundary, we considered the impact of the Emphasis of Matter on the 2025/26 Consolidated Accounts.	We concluded that no Emphasis of Matter paragraph is required in the Consolidated Accounts as the levels of fraud and error are not material and we do not believe it is fundamental to users' understanding of the Consolidated Accounts. The disclosures within the Consolidated Accounts have been updated to adequately reflect the issues relating to fraud and error in benefits administered by Social Security Scotland.

Issue	Resolution
6. Extended Producer Responsibility for Packaging Scheme The Extended Producer Responsibility for Packaging Scheme made obligated producers of packaging responsible for the cost of disposal, by charging them a tax for the volume of packaging that they produce, with the amounts collected redistributed to local authorities as a grant for their processing of the waste. PackUK (part of the Department for Environment, Food and Rural Affairs), was created in 2025 to administer the scheme on behalf of the four devolved governments. It is responsible for both collecting fees levied on producers and making the payments to local authorities across the UK. 2025/26 was the first year of the scheme and Scottish local authorities received payments totalling £150 million from PackUK during the year.	Based on the operation of the scheme during 2025/26, and Scottish Government's level of control over the collection and disbursement of funds, we have concluded that there was no principal-agency relationship between the Scottish Government and PackUK under IFRS15. There is no requirement for the income collected, or payments made, through the scheme to be recognised as income and expenditure in the Consolidated Accounts. However, a note has been added to the Climate Action and Energy Consolidated Portfolio Outturn Statement to disclose the amounts distributed to Scottish local authorities.
7. Valuation of Trunk Road Network Asset – Sensitivity Analysis The trunk road network is valued at £28.0 billion in the 2025/26 Consolidated Accounts (£27.2 billion in 2024/25). It is valued annually using RAAVS (Roads Authorities Asset Valuation System). This involves applying indexation to road surface, structures, and communications assets to allow for changes in construction costs. This applies an industry standard form of indexation using the Baxter index which comprises 14 individual indices published by the Building Cost Information Service (BCIS). The valuation of the asset is highly sensitive to movements in the underlying indices and is disclosed as a key source of estimation within the Consolidated Accounts. Under *IAS 1 - Presentation of Financial Statements*, management are also required to disclose sensitivity analysis of material valuations to movements in the key assumptions underpinning the valuation. However, no sensitivity analysis is included in relation to the trunk road valuation.	Management added sensitivity analysis to the disclosure notes in the audited accounts to show the impact of movements in the Baxter index on the value of the trunk road network.

Issue	Resolution
8. Lochaber Aluminium Smelter Note 15 details the Scottish Government's potential exposure to default payments for the financial guarantee associated with the Lochaber Aluminium Smelter. 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 2025/26 accounts preparation process, the Scottish Government reviewed the level of provision required for their guarantee. This resulted in the value of the provision at 31 March 2026 reducing to £109 million (£130 million at 31 March 2025), due to an increase in the value of the land holdings included as part of the Scottish Government's security package which reduces its financial exposure. The Cabinet Secretary for Economy, Tourism and Transport wrote to the Finance and Public Administration Committee in August 2026 regarding legal action being taken by the Scottish Government in relation to breaches by GFG of the Lochaber Guarantee and Reimbursement Agreement.	We reviewed management's assessment of their potential exposure on the financial guarantee and concluded that the Scottish Government's assessment is reasonable. We are content that the breaches of the agreement have no impact on the provision required in the Consolidated Accounts.
9. Impairment of 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. MV Glen Sannox was transferred back to CMAL when it was delivered in November 2024 and sold for £54.7 million. MV Glen Rosa is still being constructed and the expected handover date is now February 2027 (paragraphs 200. to 205.). It is valued in the Consolidated Accounts based on the original contract price (plus an uplift for inflation) and subsequent expenditure, less an impairment figure. The carrying value in the Consolidated Accounts is £46.9 million (£44 million in 2024/25) following an impairment of £51.3 million (£38 million in 2024/25).	We reviewed the Scottish Government valuation process for MV Glen Rosa. We concluded that, for 2025/26, the Scottish Government's approach to the valuation of the vessel was reasonable.

Issue	Resolution
10. Redress Note 15 details a provision of £456 million (£329 million in 2024/25) for the estimated value of payments that will be made to survivors of abuse under the 'Redress for Survivors (Historical Abuse in Care) (Scotland) Act'. The provision value has been calculated based on the average payment made per application type and the expected levels of claims over the life of the scheme.	We reviewed and assessed the methodology underlying the provision and concluded that the assessment of the provision at 31 March 2026 was reasonable.
11. Bank balance adjustment As reported in our 2024/25 Annual Audit Report, issues were encountered with the completion of the year-end bank reconciliations for the 2024/25 Consolidated Accounts. Following investigation, most of the issues contributing to the unreconciled difference between the ledger and the year-end bank statement were resolved, however, an unreconciled difference of £17.3 million remained which was reported as an unadjusted error. Management advised that this difference was attributable to accumulated corporate cash shadow balances and the migration of certain balances to other accounts and entities as part of the changeover from the SEAS ledger to Oracle; and committed to investigate and resolve these issues during 2025/26. Following investigation, management concluded that the £17.3 million unreconciled difference related to an understatement of the bank balance in the ledger.	A journal was processed during 2025/26 to debit the bank balance in the ledger with £17.3 million and credit income with £17.3 million. This has addressed the unreconciled difference previously reported and all bank balances per the ledger have been reconciled to the balances per the bank at 31 March 2026. However, as this adjustment did not represent an income transaction in 2025/26 it is reported as an unadjusted error.
12. Pension benefit disclosures The FReM requires bodies to include prescribed pension benefit disclosures in the Remuneration and Staff Report. The administration of the Civil Service Pension Scheme was transferred from MyCSP to Capita on 1 December 2025. The Scottish Government and other public sector bodies experienced delays in Capita providing the information needed to prepare these disclosures for the 2025/26 accounts. Some bodies were initially provided with inaccurate figures that did not reflect full-year pension data. These issues were escalated to the Cabinet Office in August 2026, and Capita provided the information required for the disclosures in the Remuneration and Staff Report on 25 September 2026.	We have reviewed the pension benefit disclosures in the Remuneration and Staff Report in the audited accounts and are satisfied that these are complete and reflect full year pension data. The Scottish Government should continue to engage with the Cabinet Office to ensure that similar issues are not encountered in future, and that Capita provides the required information to support 2026/27 sign-off dates. **Recommendation 2**

Issue	Resolution
13. Scottish Consolidated Fund payables balances The consolidated accounts are required to disclose a payables balance for amounts due to the Scottish Consolidated Fund (SCF) to reflect the fact that cash surpluses held within the consolidation boundary cannot be retained without authority. After provision of the 2025/26 consolidated accounts for audit, management identified that due to a cash timing issue within Oracle, Social Security Scotland had not posted an equivalent creditor balance in respect of the £101.6 million cash balance held on their Statement of Financial Position at the year-end. Therefore, the payables balance due to SCF had been understated by £101.6 million in the consolidated accounts. A similar accounting issue was also identified for NHS bodies and Scottish Forestry which resulted in the payables balance due to SCF being understated by £2.8 million in the consolidated accounts.	Management adjusted for the Social Security Scotland related balance of £101.6 million in the consolidated accounts. An adjustment has not been made for the £2.8 million balance relating to NHS Bodies and Scottish Forestry and this is reported as an unadjusted error.

Source: Audit Scotland

The audit identified other items that management should look to address for the 2026/27 financial statements

Discount factor used for the calculation of Periodical Payment Order liability within CNORIS provision

25. The Consolidated Accounts include a £1.232 billion provision (£1.071 billion in 2024/25) relating to the Clinical Negligence and Other Risk Indemnity Scheme (CNORIS) which reflects the Scottish Government's assessment of the national liability for settling compensation claims under the scheme.

26. A Periodical Payment Order (PPO) is a form of compensation in personal injury or clinical negligence cases, where payments are made annually rather than as a single lump sum, often for high-value claims. An element of the CNORIS provision calculation is for a long-term accrual of £49.3 million relating to PPOs that were impacted by a change in the Personal Injury Discount Rate (PIDR) used to calculate the value of these payments back in 2017.

27. As required by legislation, the PIDR was reviewed again in 2024 and revised from -0.75 per cent to +0.5 per cent. This new discount rate has not been used in the accrual calculation for 2025/26 and represents an unadjusted error that cannot currently be quantified. We are satisfied, given the overall value of the PPO accrual, that this does not represent a

material error. The Scottish Government should ensure the new discount rate is applied from 2026/27.

Unallocated repayments

28. The audit identified that the receivables balances included in the 2025/26 Consolidated Accounts included a £14 million credit balance relating to repayments of farmer loans that have not yet been allocated to the correct account. The Scottish Government should take action to clear the unallocated repayments balance and post them to the relevant accounts.

Balancing amounts in Statement of Changes in Taxpayers' Equity and Statement of Cash Flows

29. Our review of the Consolidated Statement of Changes in Taxpayers' Equity (SoCTE) and the Consolidated Statement of Cash Flows (SoCF) identified inconsistencies with corresponding amounts or other underlying records. Management advised that both statements contain balancing amounts (£97 million in the SoCTE and £20 million in the SoCF) to ensure that in-year group movements reconcile back to the closing consolidated reserves and cash balances.

30. We have confirmed that the opening and closing reserves and cash balances are correctly stated in the Consolidated Accounts. However, we believe the Scottish Government should work with the other public sector bodies to resolve any inconsistencies in accounting and disclosure that are contributing to these balancing adjustments.

Recommendation 3 – Resolution of audit matters

The Scottish Government should progress the resolution of the identified audit matters relating to the CNORIS provision, clearance of unallocated repayments balance and balancing amounts within the SoCTE and SoCF.

The Consolidated Accounts disclose losses of £53.0 million

31. The Consolidated Accounts disclose losses for 2025/26 of £53.0 million (£71.2 million in 2024/25). This includes Health and Social Care losses of £8.7 million relating to expired pandemic related personal protective equipment (£5.1 million), expired National Emergency planning medicines (£1.2 million), National Distribution Centre stock losses (0.7 million), and surplus PPE pandemic stock donated to charity (£1.7 million). This follows similar losses of £11.2 million reported last year, £12 million in 2023/24 and £12.8 million in 2022/23.

32. The losses statement also discloses £24.6 million for student loan write offs (£34.4 million in 2024/25), £6.1 million for debt write offs managed by the Department for Work and Pensions, and a £3.2 million payment to HMRC by NHS National Services Scotland (NSS) for the

interest due on a £31 million VAT balance for the procurement of the Microsoft Office 365 IT system which had been incorrectly recovered.

Qualitative aspects of accounting practices

33. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the body's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

34. The appropriateness of accounting policies adopted by the Scottish Government was assessed as part of the audit. These were appropriate and there were no significant departures from the accounting policies set out in the FReM.

35. Accounting estimates are used in the Scottish Government's Consolidated Accounts, including the valuation of student loans, the road network and land and buildings assets. Audit work considered the process the Scottish Government and consolidated bodies have in place, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were reasonable.
- There was no evidence of management bias in making the accounting estimates.

36. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in Exhibit 2.

37. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as financial instruments.

The consolidation process has been subject to audit review, and no significant issues were identified

38. The Scottish Government Consolidated Accounts are group financial statements. The group is made up of 34 components, including Scottish Government Core. As outlined in the Annual Audit Plan, audit work was required on several of the group's components for the purposes of the group audit, and this work was performed by a combination of the audit team and the components' audit teams.

39. The audits of all components have been concluded except for Disclosure Scotland, the Accountant in Bankruptcy, and the Student

Awards Agency Scotland. None of these components are assessed as material for the Consolidated Accounts.

40. Group audit instructions were issued to component auditors, where required, to outline the expectations and requirements in performing the audit work for the purposes of the group audit. The audit work performed on the group's components is summarised in Exhibit 4.

41. In addition to the audit work performed for the purpose of the group audit noted below, audit procedures to address the risk of management override of controls were also performed by the audit teams of each material component. No significant issues were identified by the audit teams. We evaluated and reviewed a sample of component auditors' work in this area to provide assurance over the group significant risk of material misstatement.

Exhibit 4
Summary of audit work on the group's components

Component	Auditor / Audit work required	Outcome of audit work performed
Scottish Government Core	**Audit Scotland** A full scope audit of the Core Schedules, using group materiality levels.	The outcome of audit work performed is reported within the Annual Audit Report, with details of significant findings and key audit matters reported in Exhibit 3.
Scottish Prison Service	**Audit Scotland** Audit procedures over the group significant risk of material misstatement: Estimation and judgement in the valuation of property, plant and equipment. Audit procedures over: Staff Costs; Non-Pay Expenditure; Non-Current Assets; Reserves.	The audit procedures required were performed by the component auditor, and these were evaluated and reviewed by the audit team. No significant issues were identified in relation to the significant risk of material misstatement, the account areas listed, or the audit procedures performed by the component auditor.
Social Security Scotland	**Audit Scotland** Audit procedures over the group significant risk of material misstatement: Fraud over Expenditure Audit procedures over: Non-Pay Expenditure; Trade Payables.	The audit procedures required were performed by the component auditor, and these were evaluated and reviewed by the audit team. No significant issues were identified in relation to the significant risk of material misstatement, the account areas listed, or the audit procedures performed by the component auditor.

Component	Auditor / Audit work required	Outcome of audit work performed
Transport Scotland	**Audit Scotland** Audit procedures over the group significant risk of material misstatement: Estimation and judgement in the valuation of property, plant and equipment. Audit procedures over: Non-Pay Expenditure; Non-Current Assets; Trade Payables; Reserves.	The audit procedures required were performed by the component auditor, and these were evaluated and reviewed by the audit team. No significant issues were identified in relation to the significant risk of material misstatement, the account areas listed, or the audit procedures performed by the component auditor.
NHS Greater Glasgow and Clyde	**EY** Audit procedures over the group significant risk of material misstatement: Estimation and judgement in the valuation of property, plant and equipment. Audit procedures over: Staff Costs; Non-Pay Expenditure; Funding and Income; Non-Current Assets; Trade Receivables; Trade Payables; Provisions; Reserves.	The audit procedures required were performed by the component auditor, and these were evaluated and reviewed by the audit team. No significant issues were identified in relation to the significant risk of material misstatement, the account areas listed, or the audit procedures performed by the component auditor.
NHS Tayside	**Audit Scotland** Audit procedures over the group significant risk of material misstatement: Estimation and judgement in the valuation of property, plant and equipment. Audit procedures over: Staff Costs; Non-Pay Expenditure; Funding and Income; Non-Current Assets; Trade Receivables; Trade Payables; Provisions; Reserves.	The audit procedures required were performed by the component auditor, and these were evaluated and reviewed by the audit team. No significant issues were identified in relation to the significant risk of material misstatement, the account areas listed, or the audit procedures performed by the component auditor.

Component	Auditor / Audit work required	Outcome of audit work performed
NHS National Services Scotland	**Audit Scotland** Audit procedures over: Non-Pay Expenditure; Non-Current Assets.	The audit procedures required were performed by the component auditor, and these were evaluated and reviewed by the audit team. No significant issues were identified within the account areas listed, or with the audit procedures performed by the component auditor.

Source: Audit Scotland

42. ISA (UK) 600 requires auditors to report the following matters if these are identified or encountered during an audit:

- any instances where review of a component auditor's work gave rise to issues and how this was resolved
- any limitations on the group audit, or
- any frauds or suspected frauds involving group or component management.

43. We have nothing to report in respect of these matters.

There were misstatements identified within the financial statements

44. We are required to report all unadjusted misstatements identified during our audit, other than those below our reporting threshold. The total gross value of the unadjusted errors within the Consolidated Accounts is £343.5 million. This balance is made up of £131.7 million relating to the core Scottish Government (including £89.5 million for the student loans omitted financial liability, Exhibit 3 - issue 4, £17.3 million relating to the bank balance adjustment, Exhibit 3 - issue 11, and £2.8 million for the SCF payables balance, Exhibit 3 - issue 13), £76.5 million for NHS bodies, and £135.3 million relating to agencies and other consolidated bodies.

45. Appendix 2 shows the unadjusted errors and their impact on the 2025/26 Consolidated Accounts. If these errors had been adjusted, the net impact would have been to increase comprehensive net expenditure by £77.3 million and decrease net assets by £77.3 million.

46. 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 materiality and advice from senior staff.

The Scottish Government is working with HM Treasury to enable the 2025/26 Whole of Government Accounts returns to be submitted within the required timelines

47. We reported in our 2024/25 Annual Audit Report that the Scottish Government Whole of Government Accounts (WGA) process continued to experience delays and challenges. These resulted in our audit assurance statement on the Scottish Government and SCF 2023/24 WGA returns being qualified. We also highlighted that we had not seen any improvement to the processes despite our recommendation in prior years.

48. 2024/25 was the first year that the Scottish Government and SCF WGA returns had been prepared using reports from the Oracle ledger system which has been structured in line with HM Treasury's reporting structure. A new team also prepared the WGA return.

49. We recognise that good progress was made in improving the quality and timeliness of the return submitted for audit, and responding to the issues raised during the audit. However, both returns were again qualified due to issues with the completeness of the returns. We are aware that some of these issues relate to the challenging HM Treasury timelines for agreeing information with other WGA bodies.

50. The Scottish Government is engaging with HM Treasury around the timing, and audit requirements, for the 2025/26 WGA returns to enable these to be submitted within these timelines.

Prior year recommendations are being progressed

51. The Scottish Government has made progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the Scottish Government and are outlined in Appendix 1.

2. Financial management and sustainability

Conclusions and judgements

The 2025/26 Consolidated Accounts report an underspend of £591 million which differs from the provisional outturn of £358 million due to the different budget and reporting rules. The underspend was achieved without the planned use of ScotWind money.

Failure to achieve budgeted efficiency and reform savings, and renewed inflation, present risks to the achievement of a balanced outturn for 2026/27. Further pressures already exist for the 2027/28 budget due to the income tax outturn reconciliation which will decrease funding by £720 million. In addition, given the limited progress to date, the cladding remediation programme remains a significant future financial challenge.

The reliance on one-off mitigations to achieve financial balance remains a significant risk to the achievement of long-term financial sustainability. The Scottish Spending Review identifies £1.5 billion of public sector efficiencies and reforms to help address the gap between demand and available resources, however the timelines for delivery are unclear.

Delivering economic growth and meaningful public service reform are critical to securing the long-term sustainability of the Scottish public sector.

The 2025/26 Consolidated Accounts report an underspend of £591 million

52. The Consolidated Accounts show that total net expenditure during 2025/26 was £63,589 million, £591 million less than budget (Exhibit 5). The resource budget was underspent by £350 million (0.6 per cent) against a budget of £61,156 million. Capital was underspent by £241 million (8.0 per cent) against a budget of £3,024 million. High-level reasons for significant variances between actual and budgeted spend are included in the Portfolio Outturn Statements in the Consolidated Accounts.

53. The largest resource variances related to:

- Finance and Local Government portfolio (£284 million underspend) – as the contingency for year-end adjustments were not required and have been carried forward to support the 2026/27 budget.

- Education and Skills portfolio (£200 million underspend) – due to interest on student loans being £119 million higher alongside a lower provision for the impairment of student loans of £73 million.
- Climate Action and Energy portfolio (£88 million underspend) – as the provision of £55 million for the legal case associated with the Deposit Return Scheme was not required, although appeal proceedings are ongoing.
- Transport (£225 million overspend) – relates to the valuation of the trunk road network which was partially offset by capital underspends as noted below.
- Deputy First Minister, Economy and Gaelic (£106 million overspend) – largely due to the increased provision for future Redress compensation following a review of application volumes and awards.

54. The largest capital variance occurred in the Transport portfolio (£171 million underspend) related to the trunk road network.

Exhibit 5
Performance against fiscal resource in 2025/26

Performance	Final budget £m	Outturn £m	Over / (under) spend £m
Resource	61,156	60,806	(350)
Capital	3,024	2,783	(241)
Total	**64,180**	**63,589**	**(591)**

Source: Scottish Government Consolidated Accounts 2025/26

In-year budget revisions resulted in additional resource funding of £893 million, with £720 million directed to Health and Social Care

55. The 2025/26 Autumn Budget Revision (ABR), published in September 2025, increased the resource funding available to the Scottish Government by £1,090 million. The most significant components of this were:

- £501 million from the Scotland Reserve arising from 2024/25 resource underspends (see paragraphs 65. to 67.)
- £488 million of additional Barnett consequentials arising principally from increased employer National Insurance Contributions, which support a direct and additional cost to the Scottish Government

- £120 million of additional funding from increases in the social security block grant adjustment due to UK Government changes to Winter Fuel Payment eligibility criteria.

UK Government changes in spending on devolved areas result in **Barnett consequentials** which are added or subtracted to the Block Grant. Barnett consequentials impact directly on the funding available for devolved areas.

56. The 2025/26 Spring Budget Revision (SBR), published in January 2026, reduced the resource funding available to the Scottish Government by £197 million. There was a net £66 million increase in Barnett consequentials, offset by a classification change for police and fire pensions, arising from:

- £350 million reduction due to a change in classification of police and fire pension top ups, however this had no impact on discretionary spending levels as the annually managed expenditure budget was increased
- £34 million reduction to the settlement due to a return of funding for McCloud pension remedy costs from 2024/25
- offset by £45 million of additional consequentials confirmed at the UK Autumn Budget and a further £55 million confirmed at the UK Supplementary Estimates.

57. The above reductions in the Barnett settlement were partially offset by an increase of £87 million to the social security block grant adjustment reflecting revised forecasts of UK Government spending on social security.

58. The majority of the additional in-year resource funding was directed to Health and Social Care with £720 million allocated to address the budget pressures created by increased demand and inflationary pressures and the impact of increased employer National Insurance Contributions.

The 2025/26 capital budget was reduced during the year to reflect slippage in projects

59. The net impact of the capital funding changes through budget revisions was to reduce the 2025/26 capital budget by £228 million. This was largely due to reductions in the level of capital borrowing and ScotWind drawdowns, and reflected slippage in capital project spend, including:

- Climate Action and Energy portfolio was reduced by £141 million due to slippage in capital projects for Offshore Wind (£102 million), Energy Transitions (£25.2 million), Environmental Services (£13 million) and Environmental Services (£0.6 million).

- Transport portfolio allocation included a £41 million reduction due to slippage in vessel procurement and harbour works, and £56.7 million for Ferry Services, Rail Services, and Sustainable Travel, Low Carbon, and Other Transport budget lines.

60. This level of slippage and rephasing of planned capital projects present risks to service delivery, and financial challenges, for future years.

The Scottish Government did not use any ScotWind money to achieve the 2025/26 outturn

61. The Scottish Budget 2025/26, passed by the Scottish Parliament in February 2025, set out the planned use of £364 million of ScotWind money (£341 million capital and £23 million resource) to support the Scottish Government in achieving a balanced outturn for the year.

62. During 2025/26 the Scottish Government used Accountable Officer spending controls, and central approval of new spending, to avoid non-essential expenditure and unfunded commitments. Close monitoring of forecasts and underspends supported the delivery of the required savings across portfolios and identified slippage and rephasing of capital projects.

63. When the Scottish Budget 2026/27 was published in January 2026, the ScotWind requirement had reduced to £176 million (£153 million capital and £23 million resource). In the end no ScotWind funds were required to achieve financial balance due to in-year funding changes (see paragraphs 55. to 58.), and lower than anticipated social security spend. This continues the pattern from recent years where ScotWind funds have been built into budget processes, but ultimately not been required.

64. The Scottish Government acknowledge that starting the year with a position that is reliant on one-off mitigations to achieve financial balance, presents increasing challenges for service delivery. It is a significant risk to the achievement of long-term financially sustainable position.

The Scotland Reserve is an important component of the financial management system

65. The Scotland Act 2016 allows the Scottish Government to build up funds when devolved revenues are higher than forecast, smooth 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.

66. The revised Fiscal Framework set out that the Scotland Reserve is capped at £700 million at 2023/24 real-terms value, uprated annually, with no limits for either payments into the Reserve or drawdowns from the Reserve. For 2025/26 the Scotland Reserve is therefore capped at £734 million.

67. The Scottish Government's policy is to apply any underspends for use in the following financial year, and to hold an annual reserve as a contingency for post-year end audit adjustments. The Provisional Outturn 2025-26 Briefing Note states that, following funding adjustments made after the SBR, £358 million is being carried forward in the Scotland Reserve into 2026/27. This is £236 million less than the reported underspend within the Consolidated Accounts due to:

- £129 million of final funding changes post SBR primarily due to reduced ScotWind utilisation (£176 million) offset by less than anticipated devolved tax receipts, and
- £107 million due to differences in the accounting processes and budgeting boundary.

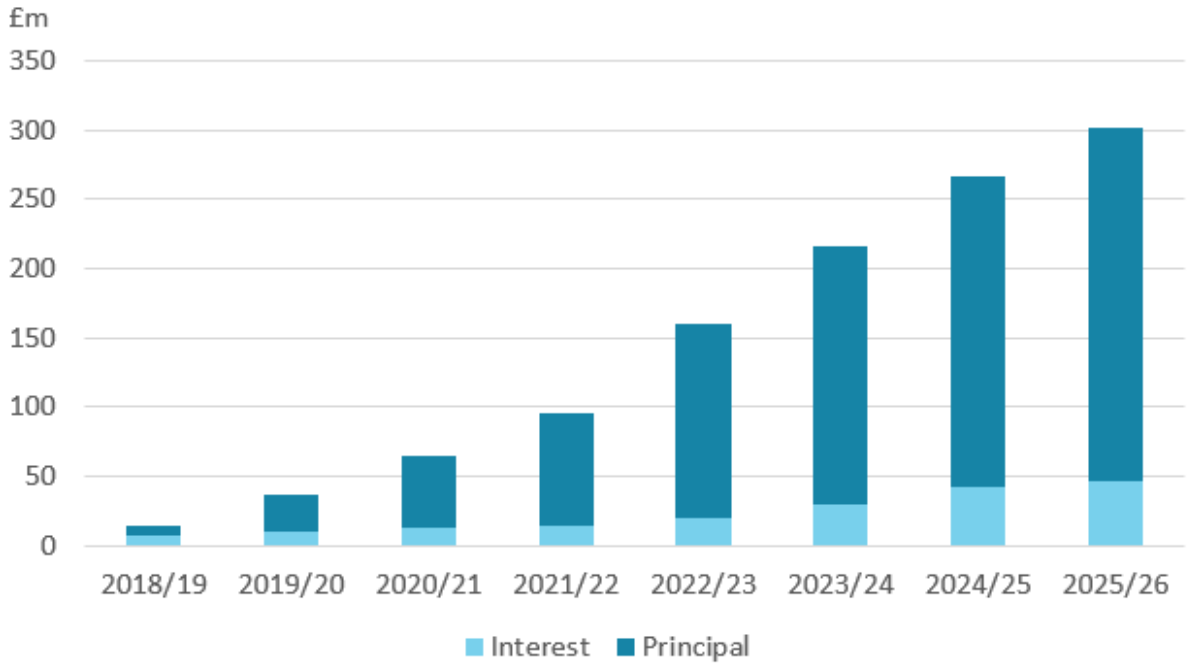
Overall borrowing increased to its highest level during 2025/26, with annual loan repayments of £255 million

68. Under the terms of the Scotland Act 2016, Scottish Ministers could 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 real-terms value with both uprated annually. For 2025/26 the annual capital borrowing limit was £472 million with a total capital borrowing limit of £3.145 billion.

69. The first sums borrowed from the National Loan Fund were received by the Fund in 2017/18. Resource and capital borrowing continued in 2025/26 with £430 million in new borrowing, significantly more than the prior year level of £139 million. As at 31 March 2026, the total outstanding balance was £2.3 billion (principal and accrued interest), the highest level since borrowing began.

70. Annual loan repayments are increasing; with £255 million paid in 2025/26 an increase of £32 million from 2024/25. This increasing financial pressure needs to be managed in the years ahead. The increase in interest and repayment amounts since 2018/19 can be seen in Exhibit 6.

Exhibit 6
Repayments of principal and interest since 2018/19



Source: Audit Scotland analysis of Scottish Consolidated Fund Accounts

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

71. 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.

72. 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. Scottish Government bonds represent an alternative, rather than additional source of capital borrowing and are therefore subject to the same aggregate limits.

73. We have been liaising with the Scottish Government on the potential accounting requirements to ensure these are appropriate and have sufficient audit arrangements in place.

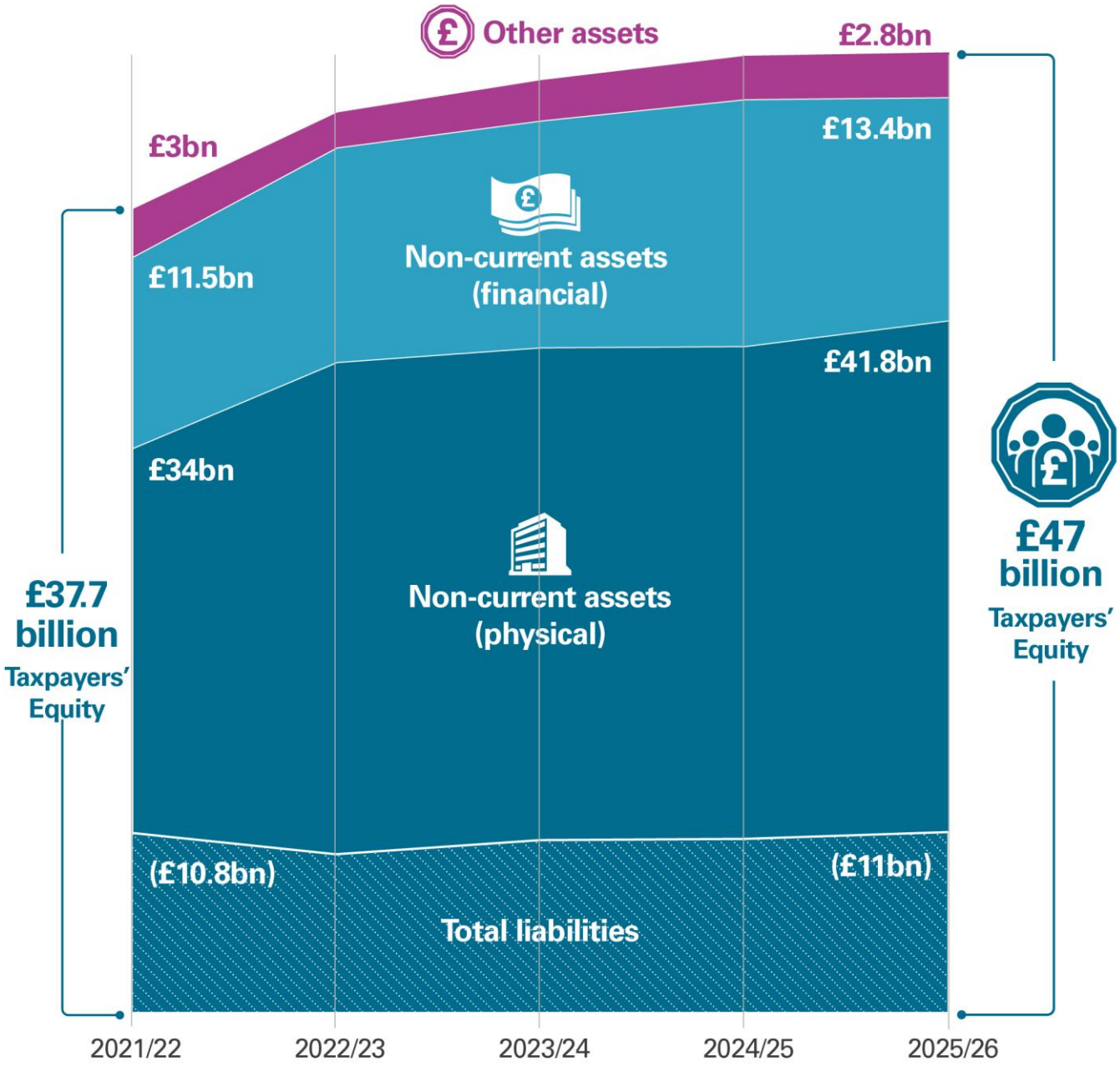
The Consolidated Statement of Financial Position continues to show a sound financial position but does not capture all Scottish public sector assets and liabilities

74. 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 assets over time.

75. As detailed in Exhibit 7, taxpayers' equity has decreased slightly during 2025/26 to £47,105 million, primarily due to the fair value adjustment to the valuation of student loans.

Exhibit 7
Financial position



Source: Scottish Government Consolidated Accounts

76. 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, local government assets and borrowing, and all public sector pension liabilities.

The Scottish Government did not publish additional public sector financial information for 2023/24, and are considering what future publications should look like

77. In October 2024 the Scottish Government collated 2022/23 financial information for the Scottish public sector and provided this to Parliament for consideration. The information focused on the assets and liabilities and provided a more complete picture of the financial position associated with the powers and responsibilities devolved to the Scottish Parliament and in the wider public sector in Scotland.

78. We submitted a response in May 2025 providing our views on how this information could be further enhanced to support public understanding. We highlighted that the real value would be established once trend information could be included to show the movement of assets and liabilities over time.

79. The Scottish Government did not formally produce consolidated public sector financial information for 2023/24. The significant challenge is the timely availability of the audited annual accounts of public bodies across all sectors. The Scottish Government has indicated that it is keen to establish a process whereby relevant annual data could be consolidated and published online at the same time as the final outturn report to Parliament. This is a longer-term aspiration.

80. In our view, there would be benefit in the interim period, in the collation and publication by the Scottish Government of public sector financial information to improve transparency and support understanding of the assets and liabilities within the Scottish public sector. We will continue to monitor and report on progress in this area as part of the annual audit process.

Failure to achieve budgeted efficiency and reform savings, and renewed inflation, present risks to the achievement of a balanced outturn for 2026/27

81. The Scottish Government's draft budget for 2026/27 was published on 13 January 2026, later than usual due to the publication of the UK Government's Autumn Budget in November 2025. The final budget was passed by the Scottish Parliament on 25 February 2026 and was set at £68,008 million, a 4.7 per cent real terms increase on the budget set in 2025/26. The 2026/27 budget assumed that the Scottish Government would draw down £150 million from the Scotland Reserve and deploy £80 million from ScotWind.

82. As a result of the UK Spring Statement on 3 March 2026, the Scottish Budget will receive £921 million in additional Barnett consequentials between 2026/27 and 2028/29 (£900 million resource and £21 million capital). Of this, £549 million applies to 2026/27 (£542 million resource, £7 million capital). Most of the resource consequentials (£533 million in 2026/27) arose from spending to write off Special Educational Needs and Disabilities deficits in local authorities in England and represents one-off additional funding. Despite this, the Scottish Government has identified that pay and inflation remain key pressures for the achievement of financial balance in 2026/27.

83. The central spending controls set out at paragraph 62. remain in place to support the achievement of financial balance. However, the Scottish Government recognise that these rely on short term, often non-recurring interventions. Future budget sustainability requires clearer alignment between commitments and outcomes, realistic funding and spending assumptions and reduced reliance on one-off measures.

84. Recurring savings opportunities have been reflected in the 2026/27 budget alongside efficiency and reform assumptions of around £500 million. Failure to achieve these will further increase the pressure on achieving a balanced outturn.

No financial penalties arose from the audit of the European Structural and Investment Funds closure package

85. The Scottish Government was responsible for managing two European Structural and Investment Funds for the period 2014 to 2020: the European Social Fund and the European Regional Development Fund. The 'closure package' was subject to audit by the European Commission (EC) in autumn 2025. The Final Report was issued in May 2026 within which the Commission provided reasonable assurance that reliance could be placed on the results of the audit work presented by the audit authority in its annual control reports and audit opinions. It also concluded that no further action would be taken by Commission services. The audit was therefore closed with no financial penalties arising from this work.

86. In 2026, the Scottish Government was also subject to a review by the European Court of Auditors (ECA) in relation to the European Social Fund Programme. The audit concluded with no financial correction or financial impact for the Scottish Government.

Progress with cladding remediation has been slow and remains a significant future financial challenge

87. Following the tragic events of the Grenfell tragedy in 2017, the Scottish Government launched a Cladding Remediation Programme to identify and remove dangerous cladding from high rise buildings. The initial pilot phase identified some challenges requiring the development of legislation.

88. The Housing (Cladding Remediation) (Scotland) Bill was passed by the Scottish Parliament in June 2024 and commenced, along with the Single Building Assessment (SBA) Standards, in January 2025. An SBA must be carried out to assess any risk caused by a building's external wall system and identify if any work is needed to eliminate or mitigate these risks.

89. The legislation also established the requirement for a public Cladding Assurance Register (CAR) to record the residential buildings that have undergone an SBA and provide details of any completed or required remediation works. The register was established with commencement in January 2025 with the first report to Parliament on 15 September 2026.

90. In June 2025, the Scottish Government's Cladding remediation: capital spend forecasting estimated that the cost to the public sector of assessing and remediating buildings in Scotland, over a 15-year programme, would be between £1.7 billion and £3.1 billion.

91. In 2020 the Scottish Government received £97.1 million in Barnett consequentials from the UK Government to support cladding remediation, although this funding was not ring-fenced. Since then, £17.5 million has been spent, significantly less that the budget allocations of £123.2 million as detailed in Exhibit 8.

Exhibit 8
Cladding planned and actual spend

	Budget £m	Expenditure £m	Over / (under) spend £m
2021/22	-	0.2	0.2
2022/23	-	1.6	1.6
2023/24	29.7	6.8	(22.9)
2024/25	41.3	3.6	(37.7)
2025/26	52.2	5.3	(46.9)
Total	**123.2**	**17.5**	**(105.7)**
2026/27	*60.6*	-	-
2027/28	*85.5*	-	-
2028/29	*115.0*	-	-

Source: Audit Scotland analysis of Scottish budget reporting

92. The Scottish Government transferred a further £31.5 million to local authorities to conduct Single Building Assessments (SBAs) and complete any associated mitigations. This funding is shared between 13 local authorities with City of Edinburgh Council (£8.7 million) and North Lanarkshire Council (£7.7 million) receiving the majority. Note that Glasgow City Council transferred its social housing stock in 2003 therefore work in this area is completed by registered social landlords.

93. The Scottish Building Safety Levy (SBSL) is a devolved tax on new residential construction that was passed into law by the Scottish Parliament in May 2026. It will come into effect from April 2028, following a one-year delay, in response to industry feedback. The Scottish Government expect it to raise between £360 million and £450 million, over 15 years, to help fund the cladding remediation programme.

94. Significant additional funding will be required to complete the cladding remediation programme. The Scottish Government need to manage this, alongside other commitments, and addressing the fiscal sustainability challenges highlighted in this section of the report.

The Medium-Term Financial Strategy will not be updated before the 2027/28 Scottish Budget, and there has been no reporting of progress against the Fiscal Sustainability Delivery Plan

95. In June 2025 the Scottish Government published a new Public Service Reform Strategy (PSRS), its seventh Medium-Term Financial Strategy (MTFS) and the first Fiscal Sustainability Delivery Plan (FSDP). These documents provide a framework for the future of Scottish public sector finance and public service reform.

96. The 2025 MTFS presented a stark picture with gaps in resource projected to grow from a balanced budget in 2025/26, to a gap of £2.6 billion in 2029/30. In November 2025 the Auditor General for Scotland published the Financial sustainability and taxes report. The report recommended that the next MTFS should set out more transparently the contribution it expects tax to make to closing the projected fiscal gap.

97. The Scottish Government notes in its FSDP that progress against the plan will be reported annually, as part of the annual update of the MTFS. However, due to the 2026 Scottish Parliamentary Election, there has not been an update to the 2025 MTFS and there has been no public reporting of progress against the FSDP. On 19 August 2026 the Deputy First Minister and Cabinet Secretary for Finance and Local Government wrote to the Convener of the Finance and Public Administration Committee to advise that an updated MTFS would not be published during 2026.

98. Going forward, the newly established Fiscal Performance and Risk Board (discussed at paragraph 136.) will have a key role in monitoring progress against the FSDP and supporting open and transparent reporting to parliament on progress against the plan and the MTFS.

The Scottish Spending Review identifies £1.5 billion of public sector efficiencies and reforms to help address the gap between demand and available resources

99. The 2026/27 Scottish Budget was accompanied by the Scottish Spending Review (SSR). This sets out the Scottish Government's multi-year spending plans from 2026/27 to 2028/29 (2029/30 for capital) and notes the uncertain fiscal context. Over the spending review period total resource funding is projected to grow from £54.1 billion in 2026/27 to £57 billion in 2028/29, representing a 5.3 per cent cash increase, or 1.4 per cent in real terms.

100. Between 2026/27 to 2028/29, the Health and Social Care, and Social Justice portfolios see the largest increases to their resource funding settlements, growing by £1.9 billion and £859 million respectively. The growth in the Social Justice funding reflects the Scottish Government's commitment to social security spending, which is demand led. The planned increase in the Health and Social Care budget, of between 2.4 to 2.5 per cent, does not match the Scottish Government's assumptions in the 2025 MTFS (discussed at paragraphs 95. to 98.), which stated that average annual real terms increases of 3.3 per cent would be needed to maintain service levels. This difference is assumed to represent the impact of any savings and efficiencies that will be required. Most other portfolios will see flat cash settlements, with some receiving cash decreases.

101. Allocations for Local Government and Justice look challenging, given known pressures in these areas. The spending plans for Local Government indicate real terms reductions of 4 per cent in both resource and capital funding over the SSR period, while resource funding for Justice remains largely flat.

102. The Portfolio Efficiency and Reform Plans set out within the SSR include savings from efficiencies, productivity improvements, workforce reductions, and reform activity. In total the plans identify £1.5 billion in cumulative, recurring savings, with workforce savings accounting for around 15 per cent. The planned health and social care savings are by far the largest portfolio contribution to the overall savings by volume, accounting for about £1 billion. This includes 3 per cent annual savings for each board, alongside other undefined efficiency and productivity savings. There is no detail given on the role of workforce reform as part of the health and social care savings. The lack of detail in important areas, including specific milestones and timelines, makes it difficult to assess whether these plans are deliverable.

Recommendation 4 – Portfolio efficiency and reform plans

The portfolio efficiency and reform plans lack sufficient detail of how these will be delivered. Portfolios should ensure that the detailed plans developed include clear milestones and timelines.

103. In June 2026 the Auditor General for Scotland published the scope for a public finances review focusing on the Scottish Government's approach to efficiency. This audit will assess the Scottish Government's planning and delivery of efficiencies and productivity as part of its approach to fiscal sustainability. It will examine the scale of planned efficiency and productivity savings, the effectiveness of the Scottish Government's planning, oversight and leadership of its plans, and consider how well placed it is to deliver them.

There will be additional pressures in the 2027/28 budget due to the income tax outturn reconciliation which will decrease funding by £720 million

104. The 2027/28 budget will include the impact of the recently announced income tax outturn reconciliation for 2024/25. The reconciliation is a normal part of the operation of the Fiscal Framework and ensures that the Scottish Government's funding is based on actual income tax revenues, rather than forecasts. In recent years the reconciliation has provided additional funding for Scotland, however the 2024/25 reconciliation will result in a £720 million decrease in the funding available to support the 2027/28 Scottish budget.

105. Further the Scottish Fiscal Commission in August 2026 noted that the economic outlook has weakened since the previous forecasts with higher-than-expected inflation. The exact implications for the 2027/28 Scottish budget remain uncertain.

The Scottish Government is still developing its Strategic Workforce Plan to outline the workforce changes required to support key priorities

106. The Scottish Government published updated workforce statistics in June 2026 which show that during 2025/26 there was a reduction of 276 FTE in the directly employed workforce alongside a reduction of 388 contingent workers. This is a total workforce reduction of 664 or 6.6 per cent, however a significant proportion of this (143 directly employed and 185 contingent workers) relates to the transfer of staff from the Scottish Government's Social Security Directorate to Social Security Scotland and is therefore not a reduction in the overall public sector workforce.

107. The Scottish Government acknowledge that the workforce reductions achieved through attrition and recruitment controls has been accompanied by a slight increase in sickness absence and decreased employee engagement. The Public Service Reform Strategy (discussed at paragraphs 109. to 111.) acknowledges that workforce reform is a critical component of public services reform and the Scottish Government needs to plan for how digital technologies, and other developments, will affect future workforce levels.

108. Although workforce controls have been in place within the Scottish Government since 2022 work is still ongoing to develop a Strategic Workforce Plan. More clarity is required on how the current approach will deliver the desired workforce, including developing the necessary skills, to deliver the key priorities.

Stronger arrangements are required to track and report on progress against the Public Service Reform Strategy if it is to deliver on its intended objectives

109. The Public Service Reform Strategy (PSRS) was published in June 2025 and set out activity across 18 workstreams designed to remove systemic barriers that prevent progress. The Scottish Government provided the most recent Update on Progress with Public Service Reform in January 2026.

110. From our review we found it difficult to track progress on the actions of the PSR strategy as they are not all specific and measurable, and the clarity of timescales is variable. Each workstream has its own governance and evaluation arrangement and the update doesn't provide an overall strategy or pillar-wide assessment of progress, reporting only at the individual action level, making it difficult to navigate. The update also notes that the work on the PSRS and implementation of the Portfolio Efficiency and Reform Plans (published in the SSR) will be complementary and coordinated. However, it is not yet clear how this will be taken forward.

111. While we accept that the implementation of the PSRS is still at an early stage, if it is to deliver on its intended objectives, it is vital that specific and measurable outcomes are established for each workstream, supported by clear timescales and milestones to track and report progress over time.

Recommendation 5 – Public Service Reform Strategy

Specific and measurable outcomes should be established for each PSRS workstream, supported by clear timescales and milestones to track and report progress over time.

The Scottish Spending Review projects a reduction in capital funding by 2029/30

112. The capital budget has faced significant challenges in recent years, creating a backlog of infrastructure projects. The 2026/27 Scottish Budget set out capital funding of £7.32 billion, a 2.1 per cent cash increase but representing a real terms decrease of 0.2 per cent, from the 2025/26 budget. The most significant changes are:

- Justice portfolio (£132.4 million increase, 23.2 per cent real terms) – relates to ongoing costs of HMP Highland and HMP Glasgow, as well as implementing the recommendations of the 2025 Deaths in Custody Independent Review of Fatal Accident Inquiries.

- Transport portfolio (£166.3 million increase, 5.5 per cent real terms) –relates to a variety of capital programmes, including A9 dualling, additional investment in sustainable transport, replacement of ScotRail's intercity rolling stock, and upgrades to ferries and ports.

113. Over the SSR period to 2029/30, capital expenditure is expected to fall by 1 per cent in cash terms, from £7.32 billion in 2026/27 to £7.25 billion in 2029/30. This amounts to a 6.5 per cent real terms reduction. This also represents a significant reduction compared to the Scottish Government's central forecast set out in the 2025 MTFS (discussed at paragraphs 95. to 98.), £856 million lower for 2026/27. The difference between the projected levels of capital spending in the 2026 SSR and 2025 MTFS will grow to £2 billion by 2029/30.

The draft Infrastructure Strategy 2027-2037 and Infrastructure Delivery Pipeline are an improvement, but funding commitments remain difficult to track

114. Alongside the publication of the 2026/27 Scottish Budget and Scottish Spending Review in January 2026, the Scottish Government also published its Consultation on the Infrastructure Strategy 2027-2037 and Infrastructure Delivery Pipeline.

115. The draft Infrastructure Strategy sets out infrastructure priorities for 2027-2037 while the pipeline set out projects with agreed business cases that will be delivered in the spending review period, up to March 2030. The Scottish Government intends that the strategy will provide a framework for infrastructure decisions and spending reviews and annual budgets will define the pipeline.

116. The strategy recognises that constraints on the capital budget, and the condition of existing assets, mean that additional sources of funding are needed. This includes the need to attract private finance and alternative financing approaches. The Scottish Government plans to use the Mutual Investment Model (MIM) to deliver a series of community health centres and are also considering it for college investment and museum collections. The Scottish Government decided against using MIM

for the A9 dualling project, as it provided poorer commercial value for money than capital-funded contracts.

117. The Infrastructure Delivery Pipeline contains all projects with an estimated cost of over £5 million and programmes over £20 million. It includes £11.1 billion of projects with agreed business cases and funding with delivery underpinned by over £30 billion of capital funding set out in the SSR, including:

- £4.1 billion for the affordable housing supply programme
- £1.36 billion for low carbon and sustainable transport
- £1.23 billion for A9 dualling
- £742.9 million for cities investment and strategy programme
- £680 million for Scottish Water Investment programme
- £651.6 million for completion for HMP Glasgow and £57.6 million for completion of HMP Highland
- £519 million for rail electrification and fleet replacement projects.

118. There is recognition of the need to fund maintenance activity alongside new infrastructure projects, with an estimated funding requirement of £7 billion over the spending review period.

119. We note that the new approach to setting out the Infrastructure Strategy and Infrastructure Delivery Pipeline represent an improvement on the previous Infrastructure Investment Plan. However, some previously highlighted concerns remain with funding commitments difficult to track across programmes and their constituent projects. Funding is also set out using different baseline years which affects tracking of overall progress and change. The alignment of individual projects to objectives lacks clarity and although priorities have been outlined, it is not clear how these have been used to prioritise projects.

Delivering economic growth and meaningful public service reform are critical to securing the long-term sustainability of the Scottish public sector

120. Recent publications by the Auditor General for Scotland and the Accounts Commission have highlighted the fragility of finances across the public sector:

- Further education colleges - Scotland's Colleges 2026 noted Scotland's colleges faced growing financial strain in 2024/25, with a rising number reliant on cash advances from the Scottish Funding Council.

- NHS - NHS in Scotland 2025 - Finance and Performance highlighted that health funding in 2024/25 was 24.9 per cent higher in real terms than it was ten years earlier with health spending representing 38 per cent of the overall Scottish budget and that the delivery of efficiencies and reform was critical.

- Local government - Local government in Scotland: Financial bulletin 2024/25 reported that costs in the local government sector continue to outpace funding increases, and the continued reliance on non-recurring measures, such as using reserves, to address budget gaps is not sustainable.

- Social care - Integration Joint Boards: Financial Analysis 2024/25 set out a stark financial picture noting that despite a real-terms increase in funding, Scotland's Integration Joint Boards are in a critical financial position. Demographic shifts are driving an increase in the demand and complexity of health and care needs.

121. The Scottish Government published its Delivering Economic Prosperity – Scotland's National Strategy for Economic Transformation in March 2022. The Auditor General for Scotland has highlighted that, under the Fiscal Framework, Scottish public finances are now more closely linked to how Scotland's economy performs relative to the rest of the UK. If the Scottish Government does not achieve improved economic performance, there will be further pressure on Scotland's public finances.

122. In September 2025 the Scottish Government published its Third annual progress report on the delivery of the 10-year National Strategy for Economic Transformation. This covered the period April 2024 to September 2025 and identified progress in delivering the actions set out in the strategy but acknowledged the impact of the global economic landscape on the impact of these actions and the performance of the Scottish economy.

123. The Auditor General for Scotland's Financial sustainability and taxes report considered the impact of devolved taxes on fiscal sustainability and explored the opportunities, risks and challenges of using tax as a lever to achieve fiscal sustainability. The report highlighted that lower earnings and employment growth in Scotland, compared with the rest of the UK, is reducing the impact of devolved taxes on the country's budget.

124. The Scottish Government faces significant financial challenges in future years as the costs of services is projected to rise much quicker than funding. Public service reform, and economic growth, is therefore critical to securing the long-term fiscal sustainability of the Scottish public sector, and this needs to be delivered at scale and pace given the extent of the financial challenges being faced.

Good practice – Scotland's Fiscal Devolution Story

In March 2026 the Scotland's Fiscal Devolution Story paper was published on the Scottish Government website. This provides an account of how Scotland's fiscal landscape has transformed over the past three decades, with an overview of what fiscal devolution has enabled, how the system now operates and the medium-term challenges ahead. We consider this to be a useful publication that explains Scotland's fiscal powers, and the annual Scottish Budget cycle, in a clear and understandable way.

3. Vision, Leadership and Governance

Conclusions and judgements

There are well established assurance arrangements in place, and the Scottish Government has taken action to strengthen its focus on priorities that cut across portfolios.

Internal audit provided a limited assurance opinion for 2025/26 with work required to address the identified weaknesses in the current risk, governance and control procedures that could affect the delivery of related objectives.

The Oracle post-implementation review identified lessons that should be considered for future public sector projects. The Scottish Government must now deliver on the anticipated benefits from its investment in the system.

The Scottish Government has continued to strengthen sponsorship arrangements.

Additional detail is required on the Programme for Government 2026-2031 proposals to rationalise the public bodies landscape, including the associated timelines and expected impact. The plans should be informed by lessons learned from previous large-scale reorganisation and reforms in Scotland.

A clear, well thought out, strategic approach will be vital to addressing the challenges facing the Scottish public sector over this parliamentary period

125. The Scottish Parliament Information Centre (SPICe) is the Parliament's internal research and information centre. Its purpose is to provide independent, impartial, factual and timely research and analysis to MSPs, parliamentary committees and Parliament staff.

126. Following the Scottish Parliamentary Election in May 2026, SPICe published a briefing setting out the Key Issues for Session 7 of the Scottish Parliament. This outlined some of the key subjects SPICe believe are likely to be of particular interest for the current Parliamentary Session. These covered many areas discussed in this report, and in previous Auditor General for Scotland and Accounts Commission reporting, including fiscal sustainability, funding challenges around demand for

reactive services, infrastructure funding, workforce pressures, NHS productivity and reform, climate change, provision of social care services, and Scotland's housing emergency.

127. Key to addressing the range of challenges facing the Scottish public sector will be having a clear, well thought out, strategic approach that reflects where the Scottish public sector needs to be by the end of this parliamentary session, and beyond, and how this can be achieved.

There have been significant changes in the Scottish Government leadership team during 2025/26

128. The Permanent Secretary is the most senior member of staff of the Scottish Administration and, as the Principal Accountable Officer, is responsible for preparing the consolidated accounts and submitting them to the Auditor General for Scotland.

129. Joe Griffin was appointed as the new Permanent Secretary to the Scottish Government on 7 April 2025, succeeding John-Paul Marks who had served as Permanent Secretary since January 2022. During 2025/26 there were several other changes in the Scottish Government leadership team with new Directors-General appointed for Corporate, Communities and External Affairs, Net Zero, and the new Exchequer, Strategy and Performance portfolio. The new leadership team will play a key role in driving the public service reform and financial savings required over the current 5-year parliamentary term.

A new permanent Chair of the Audit and Assurance Committee was appointed in August 2026

130. Non-Executive Directors (NXDs) play an important role in supporting good governance and accountability across the Scottish Government and other public bodies. They offer an independent perspective and provide strategic challenge and advice to senior leaders, including the Permanent Secretary and Directors-General. There are currently seven NXDs, and recruitment is underway to appoint three new NXDs to replace three existing NXDs whose appointments are due to end during 2026/27.

131. Jayne Scott was the Chair of SGAAC at the start of 2025/26 but stepped down as a Non-Executive Director at the end of April 2025 and was replaced by Manish Joshi as Interim Chair. Tom Taylor was then appointed as a Non-Executive Director and the new permanent Chair of SGAAC from 1 September 2025, but he stood down as a Non-Executive Director at the end of June 2026. Catherine Corbett was appointed as the new permanent Chair of SGAAC in August 2026.

Action has been taken to strengthen the focus on priorities that cut across portfolios

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

- Corporate Board – Meet quarterly to provide strategic oversight on key areas including strategy, performance and governance.
- SGAAC – Meet quarterly to assess the effectiveness of the assurance arrangements in place.
- Director-General Assurance Boards – Quarterly meetings for each portfolio to assess assurance arrangements around performance, finance, people and risk management.
- Executive Team – Weekly meetings held in various 'modes' to support focused consideration of key areas, and provide assurance over Corporate, Strategic, Delivery, and Investment activity.
- Other corporate governance sub boards – These include the People and Place Board, Infrastructure and Investment Board, the Talent Leadership and Learning Board, and the new Fiscal Strategy and Risk Board (discussed at paragraph 136.).

133. The role of SGAAC 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 Scottish Government.

134. In 2024/25 we highlighted that the portfolio structure within the Scottish Government can present challenges when tackling issues that impact across government such as child poverty or public service reform and require a clear cross-portfolio approach.

135. During 2025/26 the Strategic mode meetings of the Executive Team have focused on providing leadership and direction to ensure that the Scottish Government achieves its goals, considering issues of a cross-cutting nature and the strategic design of the organisation. Key items of discussion included budget strategy, Public Service Reform, election preparedness, population health, the legislative programme and engagement with key stakeholders.

A new Fiscal Strategy and Risk Board has been established to drive progress against the FSDP

136. In early 2026 the Scottish Government established a new Fiscal Strategy and Risk Board, chaired by the Director General Exchequer, Strategy and Performance. The role of the board is to undertake routine assessment of fiscal performance and risk, and to assess the

effectiveness and focus of the Scottish Government's strategy, policies and plans to improve fiscal sustainability and manage fiscal risk. The board receive quarterly reporting on progress against the FSDP actions and is responsible for reporting on this to the Corporate Board and Executive Team.

137. The Board's inaugural meeting was held in March 2026 with further meetings held in April and June. These meetings considered a range of topics including analysis of fiscal performance and risk reporting; development of strategic advice for the new administration; improvements to data, monitoring, and reporting; and progress made against the FSDP and MTFS.

Risk management processes are well established, but work is required to embed a risk focused approach into operational decision making

138. Risk management is key to the Scottish Government's assurance framework and is a standing agenda item across the governance forums. During the year, the Risk Management Policy Team undertook a risk management maturity exercise which showed that maturity had increased significantly, with maturity levels moving from novice to normalised across each of the three capabilities tested: risk register process, risk reporting and effective risk discussion.

139. During our attendance at SGAAC and DG Assurance meetings during the year, we observed robust discussions on risk reporting with risk management arrangements being well developed across the Scottish Government.

140. While the Scottish Government is process-mature, management has identified that further work is required to ensure the organisation is culturally mature and that risk management is fully embedded into how the Scottish Government operates and makes decisions. To support this, new skills development training modules have been developed to build upon the mandatory risk management learning already in place.

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

141. 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 2025/26. 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.

The Director for Internal Audit and Assurance provided a limited assurance opinion on the Scottish Government's risk, governance and control environment for 2025/26

142. The Director for Internal Audit and Assurance presented their Annual Assurance Opinion for 2025/26 to the June meeting of SGAAC. This concluded that, while there are areas of sound practice and improvement, evidence demonstrates that weaknesses persist which, in aggregate, limit assurance that risks are being consistently identified, managed and controlled in line with the SG's risk appetite and that controls are operating effectively. On that basis, Limited Assurance was provided. The report stated that "*There are weaknesses in the current risk, governance and / or control procedures that either do, or could, affect the delivery of any related objectives. Exposure to the weaknesses identified is moderate and being mitigated.*"

143. The Director of Internal Audit and Assurance also provided the following observations:

- Internal Audit work indicates that the key issue is generally not the absence of policy frameworks or guidance, but the inconsistent practical application. Across several high-risk areas, compliance with mandatory requirements was variable with assurance often relying on self-certification which was often not substantiated.
- This was compounded by capacity issues meaning that non-compliance was not always identified or escalated in a timely way.
- Devolved operating models, while supporting delivery flexibility, have diluted clarity over ownership of compliance outcomes.
- Data quality, system fragmentation and reliance on manual processes constrain management information and weaken oversight.
- Capacity and capability issues in several areas, including those driven by statutory or safety responsibilities, materially reduced the effectiveness of the control environment.

144. The Director of Internal Audit and Assurance's report also noted that there is a desire and opportunity across the Scottish Government to strengthen corporate health and set out strategic practical actions to improve arrangements for risk management, governance and control.

145. On 13 May 2026, the Health and Safety Executive advised the Scottish Government that it failed to comply with its statutory health surveillance requirements. This resulted in an Improvement Notice, Notice of Contravention letter and Schedule of Actions. They also noted the need for this to be addressed as a matter of priority and for measures to be put in place to ensure staff complete mandatory training and other statutory requirements.

Recommendation 6 – Risk, governance and control environment

Immediate action is required to address the weaknesses in the current risk, governance and control environment of the Scottish Government, and to promote a compliance culture across the organisation.

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

146. 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.

147. The Scottish Government has arrangements in place in respect of the prevention and detection of fraud and error; including a guidance note on counter-fraud and a Whistleblowing Policy. Further the Scottish Government Integrity Group supports fraud prevention measures by monitoring cases of suspected external and internal wrongdoing.

148. 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

149. 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 is an active participant in the biennial exercises with progress reported to SGAAC as part of the Annual Fraud Report.

150. The latest NFI exercise concluded during 2025/26 and the national report setting out the overall findings for Scotland was published in August 2026: The National Fraud Initiative in Scotland 2026.

151. The Scottish Government's participation in the NFI exercise enabled it to identify instances of staff with dual employment (i.e. employed by both the Scottish Government and another public sector body) and their investigation of these payroll matches resulted in two employees resigning from their posts.

Recommendation 7 – Risk of dual-employment fraud

As the potential for this type of fraud increases due to remote working, the Scottish Government should ensure it has arrangements in place to detect such activity and recover, or otherwise pursue, any financial loss. This also acts as an important deterrent for staff to reduce the risk of such instances in the future.

The controls within the new Oracle system largely operated as expected during 2025/26, and actions have been agreed to address the weaknesses identified

152. 2025/26 was the first full year that the new Oracle system, which manages its HR, finance and purchasing functions, has been in use. The Scottish Government appointed a service auditor for the Oracle system for 2024/25 and 2025/26. The role of a service auditor is to provide independent assurance that outsourced service providers are operating effective controls. It also delivers efficiencies by avoiding the need for multiple audits and enquiries. The service audit for 2025/26 involved detailed testing of the effectiveness of the controls in place.

153. An ISAE 3402 Type 2 Service Auditor Report – Application Controls was produced for 2025/26. This identified one control weakness which management are taking action to address. This had no direct impact on our planned audit approach for the 2025/26 financial statements audit.

154. The external audit team's controls testing for 2025/26 focused on those key controls for the financial statements which were not included within the scope of the service auditor's work. This included some controls that we would have expected to be covered by the service auditor's work. Management has agreed to review the controls coverage and assurance required for future Type 2 audits to ensure this is clearly communicated as part of the procurement process and reflects the needs of all user bodies.

155. Our testing identified some weaknesses in the operation of controls during the financial year, and actions have been agreed to address them. Our audit approach was adapted accordingly to ensure we could obtain sufficient assurance for the 2025/26 financial statements through substantive audit procedures for those areas where control weaknesses were identified. The extent of this extra testing was limited, and managed within the overall audit budget, and therefore no additional fee was required.

156. As part of our audit work, we reviewed the arrangements established by the Scottish Government to obtain assurance over Oracle's third-party hosting controls. For 2025/26 the Scottish Government obtained SOC 1 Type II and SOC 2 Type II reports covering the Oracle Cloud Infrastructure. These reports set out the service auditor's assessment of

the design and operating effectiveness of the controls in place to protect customer data within Oracle's UK cloud data centres.

157. Based on our review of these reports, we are satisfied that the Scottish Government has obtained sufficient assurance over the operational effectiveness of the controls established by Oracle. As more services move on to the Scottish Government Oracle platform, including the hosting of the new social security payment system the Scottish Government should review the assurances required to ensure these are appropriate for the sensitivity of data stored on the Oracle Cloud.

The Oracle post-implementation review identified lessons that should be considered for future public sector projects

158. The new Oracle Cloud platform was implemented as the new integrated HR and Finance system for the Scottish Government and a further 32 other public sector bodies in October 2024 at a total cost of £59.5 million.

159. As part of our 2024/25 audit, we reviewed the implementation process and concluded that appropriate governance arrangements were established for the implementation project, and these operated as expected. However, we recommended that the post-implementation review should consider the impact of optimism bias on the original estimates for the timescale and costs of the project; and include feedback from Oracle Cloud user bodies on their experience of the implementation process, and the training and post-implementation support provided. We also highlighted that the review should look to identify lessons and insights that can be applied more widely to improve the planning, management and delivery of future public sector projects.

160. The post-programme review was completed at the start of the year and published on the Scottish Government website in March 2026. This recognised that optimism bias had significantly influenced the implementation cost estimates as the Scottish Government's consideration of other organisations' experiences was based on smaller and simpler implementations.

161. The review also drew out lessons learned from the implementation process, including 5 areas which the Scottish Government believes could be applied to improve the planning, management and delivery of future projects or programmes. These relate to:

- the completeness of information available when preparing a business case and developing initial cost and timescale estimates,
- being realistic when assessing the size and skill set of the team required to deliver the project

- finding the right balance between central design versus meeting specific user requirements
- identifying pressure points around key activities, and assessing how these could potentially impact on next phase of the project
- assessing the scale of change management and training activity required throughout the life of the project.

Recommendation 8 – Lessons learned from Oracle implementation process

The Scottish Government, and other public bodies, should consider the lessons learned from the Oracle implementation process when embarking on other major projects.

Platform management costs have now stabilised, and activity continues to maximise the systems' wider benefits

162. In addition to the one-off cost to implement Oracle, discussed at paragraph 158. , the Scottish Government also incurred operating costs of around £1.6 million a month between 1 October 2024 and the end of March 2025. A significant proportion of this related to costs associated with the extended hypercare support provided by IBM to users following implementation. Costs stabilised after the hypercare support ended and around £0.9 million a month was spent on platform management costs by the end of 2025/26, with a similar level of expenditure budgeted for in 2026/27.

163. We reported in our 2024/25 Annual Audit Report that continued focus will be needed to ensure the anticipated benefits from the new Oracle Cloud platform can be fully realised, and to demonstrate value for money from the investment in the new system.

164. During 2025/26 the Scottish Government has continued with the roll-out of further Enterprise Performance Management reporting modules. These are expected to deliver strategic and operational benefits, both for the core Scottish Government and for other Oracle user bodies. Central to these will be improved budgeting, forecasting and financial planning.

165. Budget dashboards have now been established to support monitoring and reporting across the Scottish Government. These are still being refined as users develop their understanding of how the available financial data can be reported to suit their requirements and support operational delivery. However, the availability of live cost information is a significant step forward from the previous reporting.

166. The Scottish Government know that enhanced reporting tools will be vital in helping to better manage in-year budget pressures and tracking the

delivery of savings, and to support financial planning. Work is continuing to explore the potential of the system to ensure the Scottish Government maximise the wider benefits that can be derived from Oracle. The impact of these will be tracked as part of the reporting against the Oracle Benefits Management Strategy to the DG Corporate Assurance Board.

The Corporate Hub are working with user bodies to resolve ongoing issues with Oracle and prepare for the transfer of benefit payments

167. The Corporate Hub Customer Service Team offered all Oracle user bodies an annual service review at the end of 2025. 28 bodies took up the offer, with a further two providing written feedback. A key finding was that some smaller Oracle user bodies were continuing to encounter issues that had not been raised directly with the Corporate Hub or flagged through the regular engagement with the Customer Working Group.

168. Fixes and enhancements were rolled out during 2025/26 to improve the operation of the Oracle Cloud platform, and address common issues reported by Oracle users. The Corporate Hub and service teams also worked with user bodies to identify solutions to specific issues which primarily related to the design of the system controls and their suitability for some smaller public sector bodies. Despite these efforts, the Scottish Social Services Council was offboarded from Oracle on 1 April 2026 after concluding that the system did not meet their needs. The Scottish Road Works Commissioner also offboarded from the finance modules but retained the other modules.

169. The Corporate Hub supported the National Social Work Agency to onboard to the platform on 1 April 2026. Work is also continuing to prepare for the transfer of Social Security Scotland benefits payments. This is expected to commence towards the end of 2026, and it is recognised as a major project with significant risks.

The Scottish Government has provided transitional support loans to retirees who are not receiving their Civil Service pension payments

170. The Cabinet Office transferred the administration of the Civil Service Pension Scheme from MyCSP to Capita on 1 December 2025. Significant issues have been encountered with payments to recent retirees, and the pension calculations for those about to retire, with pension and lump sum amounts not being provided by the required deadlines. This has resulted in some individuals delaying their retirement due to concerns about receiving their pension payments.

171. To bridge the gap a transitional support loan scheme has been set up for retired civil servants. These are interest-free, short-term loans, provided to ease financial hardship due to pension payment delays and can be applied for by pensioners who retired on or after 1 January 2025,

and who are not yet receiving their pension entitlements. The standard amount of these loans is £5,000 but can be extended in certain circumstances.

172. The Scottish Government is responsible for administering the transitional support loan scheme in Scotland which relates to former employees of the Scottish Government and its executive agencies. A target has been set for loan applications to be processed and payments made within ten days of receipt of the application. We assessed the controls that had been established and were content that appropriate approval arrangements were in place, including checks to prevent fraud, and support payments being issued within the ten-day target.

173. The scheme opened in February 2026 and up to the end of August 2026 there were 119 applications, resulting in 108 transitional support loan payments (11 applicants withdrew their application prior to the loan being paid), totalling £0.8 million.

The Public Bodies Sponsorship Unit has taken action to strengthen sponsorship arrangements

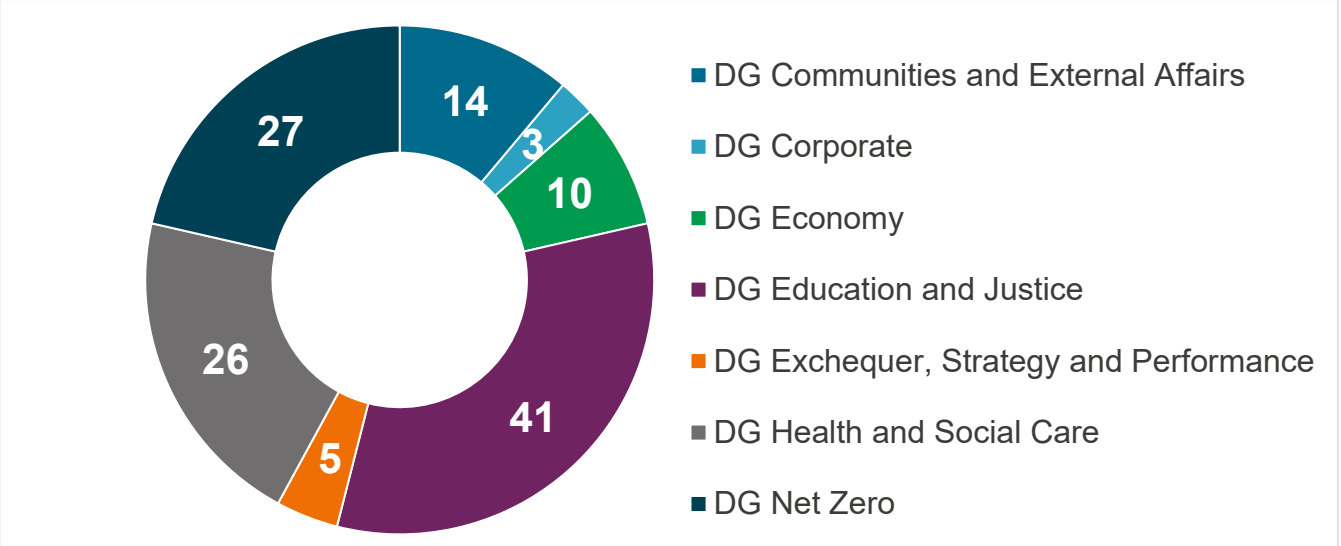
174. The independent review of public bodies, Eleanor Ryan's 'Progress Review of Scottish Government relationships with Public Bodies' was published in 2022 and included 14 recommendations. The Scottish Government provided a formal response to the review including details on each recommendation, an indication of next steps as well as timescales for completion.

175. Action has been taken in response to each of the 14 original recommendations, but the Public Bodies Sponsorship Unit (PBSU) recognise that these require ongoing review and assessment to ensure that the sponsorship arrangements operate as expected, and that they respond appropriately to issues that have arisen since the review was conducted.

176. During 2026 the PBSU considered progress against the original review recommendations and identified areas that require further action. These include the review of framework documents, discussed at paragraph 183., and the activity that will be required following the agreement of the new Scottish performance framework, discussed at paragraphs 188. to 192., to ensure that relevant outcomes are reflected in the performance frameworks of sponsor bodies.

177. There are 126 devolved public bodies in Scotland, excluding Parliamentary Commissioners and Ombudsmen. Each Director-General has responsibility for a range of public bodies with the numbers shown in Exhibit 9.

Exhibit 9
Public bodies for each DG portfolio



Source: Audit Scotland

178. As we reported in 2024/25, following the significant weaknesses identified for the Water Industry Commission for Scotland, the PBSU tested the robustness of the Scottish Government's governance and accountability framework in relation to public bodies. This identified that key risks included public bodies not acting in line with financial management and governance best practice and sponsor teams not having robust processes in place to identify issues and respond appropriately.

179. All four recommendations identified from the PBSU review have been progressed during 2025/26. Both the Sponsorship Forum and Public Bodies Advice and Support Network have met quarterly since December 2025 and have received a high level of engagement from staff across the Scottish Government. This has supported the sharing of advice and good practice between different sponsor teams.

180. Directors-General continue to receive a RAG (i.e. red, amber or green) risk assessment of the sponsor bodies within their portfolio at each DG Assurance Board meeting. This covers areas such as the senior leadership, culture and staffing of sponsor bodies; and the performance, budget and finance of the body, and is intended to help identify any emerging risks at an early stage. This would enable the sponsor team to obtain assurance that the body is taking appropriate remedial action.

181. We highlighted last year that there were inconsistencies in the quality and completeness of the RAG risk assessments and recommended that improvements be implemented. In response the PBSU updated the quarterly RAG and annual risk review templates and guidance following consultation with a selection of sponsor teams, public body chief executives and Scottish Government corporate teams. The new template

also requires sign off to evidence which officer has completed the assessment.

182. A moderation process was also introduced to ensure consistency. This involves the PBSU undertaking a range of checks on the RAG risk assessments, including a check that the templates have been fully completed and the grading assigned reflects the narrative provided and the related guidance.

183. Alongside the improvements to the quarterly RAG risk assessment of sponsor bodies, DG portfolios are also required to complete annual sponsorship deep dives and risk reviews. As part of the 2026 sponsorship deep dive process, it was identified that 24 of the 89 reviewed public bodies required action on their framework documents (23 in 2025). 16 of these reviews were also outstanding in 2025. The work to review these framework documents is continuing but due to the nature of this process it will take some time.

184. Based on our review we are satisfied that these arrangements support sponsorship receiving the visibility and scrutiny it requires, while striking the right balance between oversight and assurance. The Scottish Government also highlighted examples of where they believe the effective relationships between sponsor teams and public bodies have supported them to deliver their objectives, see Case study 1 and Case study 2 below.

Case study 1 – Enterprise Agency Sponsorship Hub

The Enterprise Agency Sponsorship Hub leads sponsorship of Scotland's 3 enterprise agencies: Scottish Enterprise, Highlands and Islands Enterprise, and South of Scotland Enterprise. Strategic sponsorship of these agencies aims to translate national economic strategy into operational delivery and support economic growth.

The enterprise agencies have a broad range of statutory powers which allow them to purchase land, provide grants and loans, and support infrastructure development in their regions. They are involved in delivering projects across the country, for all sectors of the economy.

The Sponsorship Hub acts as a bridge between the enterprise agencies and Scottish Government teams on specific initiatives. For example, it supported discussions between South of Scotland Enterprise and Scottish Government officials on the proposal for a £450 million Center Parcs village near Hawick which is expected to create around 1,200 jobs and contribute £75 million annually to the Scottish Borders economy.

The Sponsorship Hub is also playing a leading role in engaging the enterprise agencies on Public Service Reform. For example, it led on development of a reform package which includes financial flexibilities for Scottish Enterprise which will allow it to boost the impact of its budget, manage its volatile income streams and generate more income.

Source: Enterprise Agency Sponsorship Hub

Case study 2 – Environment and Forestry Sponsorship Hub

A dedicated Sponsorship Hub was created for the Environment and Forestry Directorate back in 2017, to oversee the Scottish Government's relationships with public bodies across the environment sector.

The Sponsorship Hub model was designed to deliver a consistent, strategic and collaborative approach to sponsorship across the six Non-Departmental Public Bodies of: NatureScot, Scottish Environment Protection Agency, Zero Waste Scotland, Royal Botanic Gardens Edinburgh, Loch Lomond and The Trossachs National Park Authority, and Cairngorms National Park Authority.

A key role of the Sponsorship Hub is ensuring that public bodies operate within the strategic framework set by Scottish Ministers and deliver the objectives of their Corporate Plans. To achieve this the team works closely with each public body through a cycle of formal meetings during the year. These include quarterly meetings with each organisation's senior leadership team to review performance against its corporate and annual plans, monthly finance and budget meetings, and ad-hoc engagement on specific matters such as upcoming public appointments, stakeholder engagement, or coordinating specific policy issues.

The Environment and Economy Leaders Group (EELG) is another key element of the hub approach within the Environment and Forestry directorate. This is an established forum which brings together the Chief Executives of public bodies and Scottish Government directors across the environment sector. The purpose of the EELG is to ensure that collaboration is embedded at senior levels to deliver shared outcomes across the sector.

Source: Environment and Forestry Sponsorship Hub

Additional detail is required on the Programme for Government 2026-2031 proposals to rationalise the public bodies landscape, including the associated timelines and expected impact

185. The Programme for Government 2026-2031 announced by the First Minister on 1 September included plans to rationalise the public bodies landscape through a series of mergers and integrations, as well as the creation of a small number of new public bodies. It is critical that these changes are supported by clear business cases, and stakeholder consultation, to demonstrate the benefits that will be delivered.

186. The Ryan Review (discussed at paragraph 174.) include a recommendation that: "*Portfolio Accountable Officers should ensure that a full business case and evaluation of* different *governance options is carried out, drawing on advice from Public Bodies Support Unit and other central teams including Finance and SG Legal Directorate, before any new public body is created, that advice reflects a presumption against the creation of*

further small public bodies, and that all of the analysis and eventual decision are retained to inform future sponsorship of the body."

187. There needs to be more transparency on the public service reform plans including timelines and the expected impact on finances and service delivery. The planned mergers and integrations should be supported by clear business cases, and stakeholder consultation, on the benefits to be delivered through the planned changes. The Public Bodies Sponsorship Unit will have a key role in supporting the development of these business cases and ensuring that lessons are learned from previous large-scale reorganisation and reforms, including the creation of Police Scotland and the Scottish Fire and Rescue Service.

Recommendation 9 – Rationalisation of public bodies

There needs to be more transparency on the public service reform plans including timelines and the expected impact on finances and service delivery. The business cases developed for the rationalisation of public bodies should be informed by lessons learned from previous large-scale reorganisation and reforms.

4. Use of resources to improve outcomes

Conclusions and judgements

The Scottish Government has not yet concluded the review of the National Performance Framework. In its absence it is difficult to assess the impact of spending on outcomes.

The Performance Report within the Consolidated Accounts has significantly improved.

The Strategic Commercial Assets Division has worked to improve the transparency of economic intervention activity with the establishment of a Transparency Assurance Panel.

The forecast cost to complete MV Glen Rosa has increased again to £197.5 million, and the expected handover date is now February 2027.

The Scottish Government has not yet concluded the review of the National Performance Framework. In its absence it is difficult to assess the impact of spending on outcomes.

188. The National Performance Framework (NPF) was intended to be the foundation for how policy was developed and delivered in Scotland. It included 11 National Outcomes and aimed to combine economic performance with a broader range of wellbeing measures. These indicators incorporated data from social attitudes and perceptions, to economic and environmental statistics, designed to show a broad picture of Scotland's performance.

189. The Finance and Public Administration Committee's Report on the National Performance Framework: Review of National Outcomes (November 2024) made a range of recommendations for the NPF. These included the need for greater clarity and focus, improved alignment with government priorities, enhanced parliamentary scrutiny, and a stronger emphasis on wellbeing, sustainability, and fairness alongside a commitment to inclusive economic growth and community empowerment. The former Deputy First Minister, in her response to the inquiry, stated that the Scottish Government would take further time to rethink and reform the NPF. In practice, this has meant that the NPF website has no longer been updated while the next iteration of the performance framework has been developed.

190. We reported in 2024/25 that the absence of a performance framework meant there was no overarching framework to measure and report outcome data. We also highlighted that the lack of clear and consistent performance reporting made it hard for the Scottish Government to demonstrate the extent to which it is using resources effectively to improve outcomes, and to direct resources to the areas of greatest impact.

191. Work on a new performance framework for Scotland has continued over the past 12 months with a proposed new model developed based on international good practice and drawing upon the Organisation for Economic Co-operation and Development (OECD) Measure of Wellbeing Framework. In spring 2026, the Scottish Government invited feedback from parliament, public bodies and other stakeholders on proposals for reforming the performance framework. A separate process of engagement on the national indicators commenced in May 2026, overseen by the Chief Statistician and involving internal and external subject and technical experts.

192. The Scottish Government expects to inform Parliament of the new national outcomes in September, and the national indicators later in 2026. The new performance framework will support the Scottish Government in demonstrating the extent to which its use of resources is improving outcomes.

The performance report represented a significant improvement from the prior year

193. In 2024/25 we reported that the Performance Report provided for audit contained only limited outcome data, which focused on areas of positive performance and therefore did not present the required balanced view of performance. The Scottish Government accepted that the Performance Report presented for audit did not meet the minimum requirements set out in the FReM and revisions were made to address the overall tone and balance of the report for the audited Scottish Government Consolidated Accounts. While these changes improved the quality of the report, the lack of a clear and consistent performance reporting framework meant that it still did not provide readers with a complete view of the Scottish Government's performance for the year.

194. During the year we met regularly with officers from the Scottish Government's Delivery Division to discuss the preparation of the 2025/26 Performance Report and the requirement to:

- make better use of available performance data, demonstrating progress towards outcomes and impact, rather than activity or input
- produce a more balanced report articulating negatives as well as positives, and being clear on the factors that impacted performance

- clearly articulate the action being taken to address areas of poor performance against intended outcomes.

195. The 2025/26 Performance Report provided for audit represented a significant improvement from the prior year. It presented a coherent account of the main areas of focus and activity of the Scottish Government over the last year, using data where available, identifying the challenges faced in improving areas of poor performance and future action to address these. We did note that some sections still focus primarily on achievements or activity rather than on outcomes. We accept that this is largely due to the lack of a clear framework to measure and report performance in priority areas; and the Scottish Government has committed to making further improvements in performance reporting in future years following the implementation of the new Scottish performance framework, discussed at paragraphs 188. to 192. .

The Strategic Commercial Assets Division has worked to improve the transparency of economic intervention activity

196. The Strategic Commercial Assets Division (SCAD) 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 seeking intervention from the Scottish Government and provide support across the whole lifecycle. Exhibit 10 outlines the financial support that has been made to private companies now being managed by SCAD. This is in addition to support provided through other public sector bodies including the enterprise agencies.

Exhibit 10
Financial interventions to private companies

Financial intervention	Total financial investment	Current value in Consolidated Accounts
Glasgow Prestwick Airport	£62.0 million	£21.3 million
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.	(£58.9 million last year)	(no change)
Total investment consists of capital (£43.4 million) and interest (£18.6 million).		

Financial intervention	Total financial investment	Current value in Consolidated Accounts
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.	£416.5 million (£361.9 million last year)	£102.3 million* (£99 million* last year) * These figures include £54.7 million for MV Glen Sannox which was transferred to CMAL in November 2024.
Lochaber Aluminium Smelter – Gupta Family Group (GFG Alliance) In December 2016, the Scottish Government issued a 25-year financial guarantee 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. The Cabinet Secretary for Economy, Tourism and Transport wrote to the Convener of the Finance and Public Administration Committee in August regarding legal action being taken by the Scottish Government in relation to breaches of the Lochaber Guarantee and Reimbursement Agreement by GFG.	Nil (no change)	Provision of £109 million (£130 million last year) The valuation of the provision reduced this year due to an increase in the value of the land holdings included as part of the Scottish Government's security package.
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 still pursuing a return through the administration process.	£50.9 million (no change)	Nil (no change)

Source: Audit Scotland

197. During 2025 the Director-General Economy engaged with the Public Audit Committee about the operation of SCAD, existing financial interventions and the findings from the Transparency Review. There were eight recommendations from the review designed to improve the

transparency of economic intervention activity, whilst protecting the commercial interests of its business shareholdings. These included the establishment of a Transparency Assurance Panel, and a commitment to create a webpage with up-to-date information on SCAD.

198. The Transparency Assurance Panel was established in September 2025 with the aim of improving transparency across the strategic commercial asset portfolio. Its membership includes representatives from Open Government Policy, the Freedom of Information Unit and Legal Department, to support its role in reviewing SCAD's decisions on whether to publish commercial advisory reports relating to strategic commercial assets.

199. The SCAD section of the Scottish Government website went live during 2025/26 and provides information on the operation of the division. It contains the Interventions Assurance Playbook which provides specific and targeted operating procedures in relation to managing strategic assets, including detailed guidance, and signposting to existing best practice. The playbook will be updated to reflect the latest intervention activity of the Scottish Government and wider good practice. The Strategic asset management section of the page then provides up-to-date details of the Scottish Government's current financial interventions to private companies, as detailed in Exhibit 10.

The forecast cost to complete MV Glen Rosa has increased again to £197.5 million, and the expected handover date is now February 2027

200. In March 2022, the Auditor General for Scotland issued the 'New vessels for the Clyde and Hebrides' report. This noted multiple failings that had led to delays and cost increases and highlighted significant challenges at Ferguson Marine Port Glasgow (FMPG) that needed to be addressed.

201. We reported last year that MV Glen Rosa was expected to be delivered in Q2 (April to June) 2026 and that the forecast total cost to complete had increased to £185 million (including £12.5 million for risk contingency). On 30 January 2026, the chief executive of FMPG wrote to the Convenor of the Net Zero, Energy & Transport Committee. This noted that FMPG had undertaken a comprehensive review of all associated costs aligned with the updated delivery date of Q4 2026 (October to December 2026) and the estimated cost to finish had increased by £7 million. It also highlighted that to account for potential risks, an additional £5.5 million contingency had been allocated, resulting in a total forecast cost to complete of £197.5 million.

202. On 29 October 2026 the Cabinet Secretary for Economy, Tourism and Transport wrote to the Convenor of the Transport Committee to provide an update on the handover date for the MV Glen Rosa. This set out that the handover date had been revised to February 2027.

203. As set out in our 2024/25 Annual Audit Report, there has been continual slippage and cost overruns throughout the MV Glen Sannox and MV Glen Rosa build process. MV Glen Sannox was delivered in November 2024, 3 years after the original completion date, and MV Glen Rosa is now projected to be delivered over 4 years late. The combined cost of the vessels has also increased from an original upper estimate of £114 million to the latest projection of £346.5 million (a £232.5 million / 203 per cent overspend). As highlighted previously, the lack of accurate projections for the final cost and completion dates of the vessels throughout the build process has undermined the Accountable Officer assessments.

204. In May 2025, the Auditor General for Scotland published the scope for a further report on the delivery of the vessels that will be published following the completion of the MV Glen Rosa. This will look to draw out lessons that should be applied to other complex projects or commercial operations. The fieldwork for this review has been undertaken, and the final audit work is scheduled to be completed after the MV Glen Rosa is delivered.

205. Audit work is also planned on the findings of the Forensic examination of the accounting records of the former privately-owned Ferguson Marine Engineering Ltd (FMEL), covering the period before nationalisation in December 2019, which was requested by the previous Public Audit Committee and is due to be published later in 2026.

In March 2026 it was announced that the Scottish Government intended to directly award four vessel contracts to FMPG

206. In March 2026, the former Deputy First Minister and Cabinet Secretary for Transport delivered a parliamentary statement to set out the Government's intention to support FMPG through a series of proposed direct contract awards and capital investment to modernise the shipyard. The proposed awards include two small replacement vessels for CMAL and two replacement vessels for Marine Scotland. The statement also outlined planned modernisation of the yard, aligned to the anticipated delivery pipeline. All awards are subject to the completion of the necessary legal, commercial and subsidy control requirements.

207. The Scottish Government recognise that the direct award of these contracts represents a complex programme requiring the coordination of a series of major projects across portfolios. Therefore, new Director General-led governance arrangements are required to support delivery.

208. Officers are currently working on the detail of the business case for how this proposal will be delivered.

The planned sale of Glasgow Prestwick Airport ended following the withdrawal of the preferred bidder

209. On 26 November 2025, the former Deputy First Minister and Cabinet Secretary for Economy and Gaelic wrote to the Convener of the Economy and Fair Work Committee to advise that a potential sale of Glasgow Prestwick Airport would not be completed as the preferred bidder had decided to withdraw from the process. As a result, the airport has remained in public ownership, and action is currently being taken to agree a new framework agreement and strengthen the Board to support the commercial operations of the airport in the future.

Ardrossan Harbour was purchased by Caledonian Maritime Assets Limited for £16 million in March 2026 and the work needed to improve the harbour will be significant

210. Ardrossan Harbour was purchased by Caledonian Maritime Assets Limited (CMAL), on behalf of the Scottish Government, on 18 March 2026. The harbour was acquired from Peel Ports Group for £16 million as part of plans to secure Ardrossan as the principal mainland port for Arran ferry services by the MV Glen Sannox and MV Glen Rosa.

211. The purchase of the harbour followed a Written Authority by the (then) Cabinet Secretary for Transport. A Written Authority is provided to Accountable Officers directing them to proceed with a course of action that they believe is inconsistent with their statutory responsibilities. In line with the Scottish Public Finance Manual (SPFM), the Chief Executive of Transport Scotland, as Accountable Officer, assessed whether the purchase of the harbour met standards regarding propriety, regularity, value for money and feasibility.

212. On 25 February 2026, the Accountable Officer concluded in a letter to the Cabinet Secretary that the value for money standard had not been fully met at the point of purchase. This was due to significant uncertainties regarding the state of the asset, the level of risks which may arise as a result, and the scope of the future upgrading. The Accountable Officer also highlighted risks in relation to the affordability of redevelopment works within future Transport Scotland budgets. On 27 February 2026, the Cabinet Secretary issued a Written Authority to proceed with the purchase of Ardrossan Harbour by CMAL on behalf of Scottish Ministers.

213. Work is now underway to review and develop the revised scope for a redeveloped Ardrossan Harbour under CMAL ownership. The first phase includes core work to enable MV Glen Sannox and MV Glen Rosa to use the port. An Outline Business Case is expected to be presented later in 2026 for approval to proceed to procurement on a preferred scheme, with project costs expected to be confirmed once design work is complete and prior to contract agreement. Work is expected to start on phase one in 2027 and take around two years to complete, depending on agreed scope and contract phasing.

214. There are potentially significant cost implications and liabilities arising from the decision by Scottish Ministers to proceed with the purchase of Ardrossan Harbour. It will be essential for Transport Scotland, working with CMAL, to continually assess the scope, costs and liabilities arising from the purchase and subsequent redevelopment works and liaise with the Scottish Government to ensure that overall affordability and value for money is achieved.

The social security programme has now been closed with total investment £32.9 million less than the February 2023 estimate

215. Social security benefits and powers were devolved to Scotland through the Scotland Act 2016. The Scottish Government set up a social security programme to manage the implementation of the devolved benefits. It was responsible for designing and implementing the benefits, and the supporting systems and processes for Social Security Scotland to administer them.

216. The Auditor General previously reported on the implementation of social security powers in May 2022. When the updated Programme Business Case was published in February 2023 the Scottish Government estimated programme implementation costs of £600 million, alongside investment on the Social Security Scotland side of £115.5 million. This expenditure was to develop and deliver the infrastructure and systems required to deliver social security benefits in Scotland.

217. The social security programme was formally closed by the Programme Board in March 2026. As a result of the programme management arrangements in place, the total expenditure on programme implementation is under the revised budget at £567.1 million, alongside the Social Security Scotland investment being on budget at £115.5 million.

218. IBM has been awarded the contract to develop the social security payment platform, with work commencing in March 2026.

Appendix 1 – Action plan

2025/26 recommendations

Issue / risk	Recommendation	Agreed action
1. Postgraduate debt modelling Our audit work identified that the model producing the percentages used to impair the student loans asset does not include postgraduate balances. Further the Scottish Government, SAAS and SLC do not currently maintain a split of the total Scottish student loan book value between undergraduate and postgraduate balances. **Risk:** The postgraduate loan debt may be incorrectly impaired.	During 2026/27 the Scottish Government should work with SLC to establish an accurate split of the total Scottish student loan book between undergraduate and postgraduate balances. Point 3 in Exhibit 3	**Accepted** The Scottish Government and SAAS will commence engagement with SLC to establish an accurate split of the loan balances between undergraduate and postgraduate. **Responsible Officer:** Head of Advanced Learning and Skills Analysis, Scottish Government (Model SRO) **Completion date:** 31 March 2027
2. Pension benefit disclosures The Scottish Government and other public sector bodies experienced delays in Capita providing the information needed to prepare the pension benefit disclosures in the 2025/26 Remuneration and Staff Report. **Risk:** The late provision of this information could result in delayed sign-off or a modified opinion.	The Scottish Government should continue to engage with the Cabinet Office to ensure that similar issues are not encountered in future, and that Capita are able to provide the required pension information to support expected sign-off dates for the 2026/27 accounts. Point 12 in Exhibit 3	**Accepted** The Cabinet Office manages the Capita contract; the Scottish Government is a customer. We will continue engaging both to secure timely, accurate pension information for the 2026/27 accounts. This will include an agreed specific date in line with the Scottish Government accounts audit and sign-off. **Responsible Officer:** Head of Shared Services Operations **Completion date:** February 2027

Issue / risk	Recommendation	Agreed action
3. Resolution of audit matters Audit testing of the Consolidated Accounts identified matters that should be addressed for 2026/27 relating to: • the discount rate used for the PPOs within the CNORIS provision • repayments of farmer loans that hadn't been allocated to the relevant account • balancing items within the SoCTE and SoCF relating to inconsistencies in accounting and disclosure from other public sector bodies. **Risk:** These areas impact on the delivery of the audit and accuracy of the financial statements.	The Scottish Government should progress the resolution of the identified audit matters relating to the CNORIS provision, clearance of unallocated repayments balance and balancing amounts within the SoCTE and SoCF. Paragraphs 25. to 30.	**Accepted** Finance will review these issues during 2026/27, liaising with relevant areas and consolidated bodies to progress material items. **Responsible Officer:** Deputy Director, Corporate Finance **Completion date:** March 2027
4. Portfolio efficiency and reform plans The portfolio efficiency and reform plans lack sufficient detail of how these will be delivered. **Risk:** The lack of detail in important areas, including specific milestones and timelines, makes it difficult to assess whether these plans are deliverable.	Portfolios should ensure that the detailed plans developed include clear milestones and timelines. Paragraphs 99. to 102.	**Accepted** Portfolio efficiency and reform plans are an integral part of public service reform and portfolios are refining their plans, including their plans for workforce reductions. **Responsible Officer:** Challenge and Scrutiny Lead **Completion date:** May 2027

Issue / risk	Recommendation	Agreed action
5. Public Service Reform Strategy The actions in the Public Service Reform Strategy are not all specific and measurable, and the clarity of timescales is variable. **Risk:** Progress against these actions cannot be clearly monitored and reported.	Specific and measurable outcomes should be established for each PSRS workstream, supported by clear timescales and milestones to track and report progress over time. Paragraphs 109. to 111.	**Accepted** The most recent delivery report to PSR Committee was published in September 2026. Work is in hand to develop a Monitoring and Evaluation Framework to publish autumn 2026, building on the Theory of Change and technical update published in March 2026. **Responsible Officer:** Deputy Director, Place Based Services and Reform **Completion date:** End 2026
6. Risk, governance and control environment The Director for Internal Audit and Assurance provided a limited assurance opinion on the Scottish Government's risk, governance and control environment for 2025/26. The Scottish Government were also issued with an Improvement Notice from the Health and Safety Executive in May 2026. **Risk:** Weaknesses in the risk, governance or control procedures affect the delivery of related objectives or result in further breaches of health and safety requirements.	Immediate action is required to address the weaknesses in the current risk, governance and control environment of the Scottish Government, and to promote a compliance culture across the organisation. Paragraphs 142. to 144.	**Accepted** The Executive Team will be considering a plan to develop and agree a targeted programme of action to strengthen the Scottish Government's risk, governance and control environment and promote a stronger culture of compliance. A working group has been established to devise and implement a suitable statutory health surveillance system as outlined in the HSE Notice of Contravention. Interim engagement with HSE is planned for September 2026 to provide an update on progress, evidence of compliance must be provided by mid-November 2026. **Responsible Officer:** DG Corporate **Completion date:** November 2026

Issue / risk	Recommendation	Agreed action
7. Risk of dual-employment fraud The Scottish Government's participation in the NFI exercise enabled it to identify instances of staff with dual employment. **Risk:** Employees exploit remote working arrangements to take up other employment.	The Scottish Government should ensure it has arrangements in place to detect such activity and recover, or otherwise pursue, any financial loss. Paragraphs 149. to 151.	**Accepted** Arrangements are in place to submit data for the NFI exercise at end of September 2026, with matches due to be received in January 2027. Resources are in place to review matches to highlight any fraud or error. **Responsible Officer:** Head of Shared Services Operations **Completion date:** February 2027
8. Lessons learned from Oracle implementation process The Oracle post-programme review identified lessons learned that could be applied to improve the planning, management and delivery of future projects or programmes. **Risk:** Similar issues are encountered on other projects which result in delays and cost overruns that could have been prevented.	The Scottish Government, and other public bodies, should consider the lessons learned from the Oracle implementation process when embarking on other major projects. Paragraphs 158. to 161.	**Accepted** The relevant Digital Assurance Office technology assurance framework reflects the main points in the review and will be kept under review for continued relevance. **Responsible Officer:** DG Corporate **Completion date:** Complete

Issue / risk	Recommendation	Agreed action
9. Rationalisation of public bodies The Programme for Government 2026-2031 included plans to rationalise the public bodies landscape through a series of mergers and integrations. **Risk:** The rationalisation of public bodies does not deliver the intended efficiencies and service improvements.	There needs to be more transparency on the timelines and the expected impact on finances and service delivery of rationalisation plans. The business cases developed should be informed by lessons learned from previous large-scale reorganisation and reform. Paragraphs 185. to 187.	**Accepted** Programme planning underway informed by Functions Based Review, which informed the changes announced in the Programme for Government. This Review was conducted jointly with public bodies and their sponsors, and the planning will draw out both detailed timelines, upfront costs and long-term savings. Public bodies reform will be an ongoing process, taking into account lessons learned in both putting into effect the changes agreed for this year, and developing an overarching design framework for public bodies to support future phases of change. **Responsible Officer:** Deputy Director Public Bodies Landscape Review. **Completion date:** May 2027 for first phase of public bodies changes announced in Programme for Government.

Follow-up of prior year recommendations

Issue / risk	Recommendation	Progress
PY1. Preparation of the Consolidated Accounts	The core schedules provided to audit were subject to a few non-audit adjustments resulting in additional work for the audit team. The processes should be reviewed to ensure similar issues aren't experienced in future years.	**Ongoing** While the working papers provided were generally of a good standard, issues were again encountered with the quality of the supporting schedules and reconciliations provided for the non-current assets, receivables and payables balances. We will continue to work with finance staff during 2026/27 to clarify our working paper requirements and to agree what supporting schedules will be provided to support our audit testing. Paragraphs 14. and 16.
PY2. Fair Pay disclosures	The Scottish Government should put arrangements in place to enable full compliance with the FReM Fair Pay disclosures.	**Ongoing** Progress has been made to incorporate agency and other temporary staff within the Fair Pay disclosures in the Consolidated Accounts. However, some limitations remain in the available data which the Scottish Government is working to resolve for 2026/27.

Issue / risk	Recommendation	Progress
PY3. Bank reconciliation process	The Scottish Government should review the current processes, and resolve the remaining unreconciled difference, to ensure that accurate and clearly presented bank reconciliations can be produced in a timely manner for all accounts.	**Completed** Management concluded that the £17.3 million unreconciled difference related to an understatement of the bank balance in the ledger due to errors during the migration of balances. A journal was processed during 2025/26 to debit the bank balance in the ledger with £17.3 million and credit income with £17.3 million. This has addressed the unreconciled difference previously reported and all bank balances per the ledger have been reconciled to the balances per the bank at 31 March 2026. Point 11 in Exhibit 3
PY4. Approval of consultancy expenditure	The Scottish Government should reinforce to staff the importance of adherence to the consultancy expenditure approval levels set out within the SPFM.	**Completed** Consultancy procedures refreshed and reminder on compliance issued to Directors in February 2026.
PY5. Agency staff expenditure	The Scottish Government should review the appropriateness of the approval levels for agency staff appointments, and the arrangements to monitor and report on agency staff expenditure.	**Ongoing** A review of the current contingent worker control framework was carried out in April 2026. Work to implement the recommendations from that review is being taken forward during 2026/27. Following the implementation of these new arrangements, we will consider whether they have improved the controls relating to value for money.

Issue / risk	Recommendation	Progress
PY6. Whole of Government Accounts (WGA)	The Scottish Government need to strengthen the WGA process. Key to this will be establishing a timetable to produce a complete and accurate WGA pack for audit to support progress towards the achievement of WGA submission deadlines.	**Ongoing** Good progress was made in the quality and timeliness of the 2024/25 WGA audit process. However, returns were again qualified due to issues with completeness of counterparty data. We are aware that some of these relate to the challenging HM Treasury timelines for agreeing information with other bodies. The Scottish Government is engaging with HM Treasury around the timing, and audit requirements, for the 2025/26 WGA returns. Paragraphs 47. to 50.
PY7. Consolidated public sector information	The Scottish Government should develop the routine reporting of consolidated public sector financial information to provide a better picture of the movement in assets and liabilities over time.	**Ongoing** The Scottish Government did not publish consolidated public sector financial information for 2023/24 and are considering what future publications should look like. Paragraphs 77. to 79.
PY8. Affordability of capital investment	The Scottish Government is due to publish a revised Infrastructure Investment Plan later this year. The future reporting against the plan should accurately capture the impact of the spend on the desired outcomes.	**Ongoing** The draft Infrastructure Strategy 2027-2037 and Infrastructure Delivery Pipeline are an improvement, but programmes remain difficult to track. Paragraphs 114. to 119.
PY9. Delivery of Financial Sustainability Delivery Plan savings	The Scottish Government needs to develop more detailed delivery plans to support the realisation of the savings outlined in the Financial Sustainability Delivery Plan. These plans need to include detail on how the desired outcomes will be prioritised within the savings plans.	**Ongoing** There has been no external reporting of progress. Going forward, the Fiscal Performance and Risk Board will have a key role in monitoring progress and supporting open and transparent reporting. Paragraphs 95. to 98.

Issue / risk	Recommendation	Progress
PY10. Delivery of robust workforce plans	The Scottish Government needs to develop a strategic workforce plan that aligns with the delivery of key priorities. This should support a managed reduction in the workforce to more sustainable levels.	**Ongoing** The Scottish Government is still developing its Strategic Workforce Plan to outline the workforce changes required to support key priorities. Paragraphs 106. to 108.
PY11. Resolution of support tickets	The new prioritisation criteria still need to be embedded within the iFix support process. Management should also develop reporting tools that would enable the number and age of the open tickets in each priority category to be monitored and reported. Target timescales should also be developed for the resolution of each of the 9 prioritisation categories.	**Completed** New arrangements introduced in November 2025 have reduced the average response times. A prioritisation framework is now in place to ensure urgent issues are escalated appropriately, and new dashboards provide detailed data on ticket volumes and age, alongside clear target timescales by category.
PY12. Oracle post-implementation review	The Oracle Cloud post-implementation review should consider the impact of optimism bias on the original estimates for the timescale and costs of the project; and include feedback from Oracle Cloud user bodies on their experience of the implementation process, and the training and post-implementation support provided.	**Completed** The Oracle post-implementation review was completed in March 2026 and identified lessons that should be considered for future public sector projects. Paragraphs 158. to 161.
PY13. Delivery of anticipated Oracle Cloud benefits	The Scottish Government should develop a benefits delivery plan that sets out the key steps to deliver the cultural change required to realise the anticipated benefits from Oracle Cloud and achieve the operational efficiencies and service delivery improvements envisaged when the new system was procured.	**Ongoing** Work is continuing to explore the potential of the Oracle system so that the Scottish Government can maximise the wider benefits. The impact of these will be tracked as part of the reporting against the Oracle Benefits Management Strategy to the DG Corporate Assurance Board. Paragraphs 162. to 166.

Issue / risk	Recommendation	Progress
PY14. Approach to cross-government priorities	The Scottish Government needs to strengthen the approach, and associated assurances, for priorities that cut across portfolios to ensure focused action.	**Ongoing** During 2025/26 the Strategic mode meetings of the Executive Team have focused on providing leadership and direction to ensure that the Scottish Government achieves its goals, considering issues of a cross-cutting nature and the strategic design of the organisation. Paragraphs 132. to 135.
PY15. Sponsorship arrangements	The assessment of public bodies should be strengthened to provide clearer assurance. This could include requiring positive statements that there are no issues at the relevant body.	**Completed** The Public Bodies Sponsorship Unit has taken action to strengthen sponsorship arrangements. Paragraphs 174. to 184.
PY16. National Performance Framework	The Scottish Government need to establish a clear and consistent performance reporting framework that enables it to demonstrate the impact of its activity on priority outcomes over time.	**Ongoing** The Scottish Government is developing a new performance framework to demonstrate how its use of resources is improving outcomes. Paragraphs 188. to 192.
PY17. Performance report	The Scottish Government need to establish robust arrangements to support the production of a performance report that provides readers with a fair, balanced, and complete view of the Scottish Government's performance each year.	**Completed** The 2025/26 Performance Report provided for audit represented a significant improvement from the prior year. The Scottish Government has committed to making further improvements following the implementation of the new Scottish performance framework. Paragraphs 193. to 195.

Appendix 2 – Misstatements

The table below summarises unadjusted misstatements. If these had been adjusted, the net impact would have been to increase comprehensive net expenditure by £77.3 million and decrease net assets by £77.3 million.

	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
Description of error	**Debit £m**	**Credit £m**	**Debit £m**	**Credit £m**
Student loans valuation – omitted financial liability (Issue 4 in Exhibit 3)	89.5			89.5
Bank balance adjustment (Issue 11 in Exhibit 3)	17.3			17.3
Error within NHS bodies and Scottish Forestry whereby cash was credited to reserves rather than to the SCF Creditor (Issue 13 in Exhibit 3)			2.8	2.8
Balancing adjustment and misstatements in financial assets opening balances (Gross value)			15.9	15.9
PPE balance understated as indexation not applied to asset components in 2025/26			1.6	1.6
Receivables balance understated due to inclusion of a credit balance for an unreversed journal		1.3	1.3	
Classification error due to miscoding of electronic purchasing card balances during 2024/25 which have not yet been cleared		1.1	1.1	
Understatement of Scottish Forestry receivables balance			2.2	2.2
Total Scottish Government unadjusted errors	**106.8**	**2.4**	**24.9**	**129.3**
NHS bodies unadjusted errors	**7.3**	**34.4**	**69.2**	**42.1**
Other consolidated bodies unadjusted errors	**-**	**-**	**135.3**	**135.3**
Total unadjusted errors in 2025/26 Consolidated Accounts	**114.1**	**36.8**	**229.4**	**306.7**

Appendix 3 – National reports

Report name	Date published
Auditor General for Scotland reports	
Adult Disability Payment	18 September 2025
Financial sustainability and taxes	13 November 2025
NHS in Scotland 2025: Finance and performance	4 December 2025
Administration of Scottish income tax 2024/25	16 January 2026
Criminal courts backlog follow-up	28 May 2026
Post-school education and skills reform	25 June 2026
Scotland's colleges 2026	10 September 2026
Management of the ScotWind leasing round	17 September 2026
Renewable Energy	1 October 2026
Joint Auditor General for Scotland and Accounts Commission reports	
Flooding in communities: Moving towards flood resilience	28 August 2025
Improving care experience: Delivering The Promise	8 October 2025
Delayed discharges: A symptom of the challenges	8 January 2026
Community health and social care: Performance 2025	8 January 2026
Accounts Commission publications	
Delivering for the future: Responding to the workforce challenge	7 August 2025
The Scottish Budget 2026/27: Supplement to Financial bulletin 2024/25	12 February 2026
Other publications	
Transforming the approach to climate change: Lessons from public audit	19 March 2026
National Fraud Initiative in Scotland 2026	19 August 2026

Scottish Government

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