Scottish Government

2021/22 Annual Audit Report

Prepared for the Scottish Government and the Auditor General for Scotland

February 2023

Contents

Key messages

2021/22 annual report and accounts

1 The independent audit opinion is unqualified. This means in our opinion, we are content the 2021/22 Scottish Government Consolidated Accounts show a true and fair view, following accounting standards, and that the income and expenditure for the year is lawful.

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

Financial management and sustainability

3 Total spending was £1,988 million less than budget. The resource budget was underspent by £1,822 million (3.7 per cent) against a budget of £49,023 million and capital was underspent by £166 million (7.5 per cent) against a budget of £2,202 million.

4 The Scottish Government allocated £5.8 billion funding to support its Covid-19 response activity during 2021/22. This formed a significant part of the Scottish Government's financial response to supporting the NHS, businesses, local government and the wider economy during the year.

5 The financial pressures facing the Scottish Government have intensified in recent months due to tougher economic conditions. These pressures include higher inflation, increased interest rates and public sector pay. These all add pressure to already constrained budgets.

6 The Scottish Government should continue to strengthen its focus on longer-term financial sustainability. In doing so, it should ensure its policy choices and spending commitments are fully costed and transparently reported, particularly where there are funding implications for the wider public sector.

7 The Scottish Government has committed to the development of a devolved public sector account on a two-stage basis, but progress has been delayed.

Governance, transparency and value for money

8 The volume of challenges faced by the Scottish Government throughout the year meant there continued to be considerable strain placed on staffing capacity and wellbeing. This is likely to intensify in the years ahead given the Scottish Government's intention to limit the size of the public sector workforce to pre-Covid levels by 2026/27 and hold the total public sector pay bill at 2022/23 levels.

9 Following the appointment of the new Permanent Secretary, the Executive Team's role and responsibilities were reviewed. The Executive Team now meets twice weekly in different 'modes', aimed at addressing the key priorities and issues facing the Scottish Government. We welcome this development and the renewed focus it aims to have on addressing key priorities and issues.

10 Corporate transformation is a way for the Scottish Government to achieve greater efficiencies in the longer term and is an urgent priority. There is uncertainty over timescales and available funding to deliver the whole programme.

11 Performance reporting within the Scottish Government could be improved. The absence of defined, measurable performance targets means it is difficult to assess whether the Scottish Government is delivering its intended aims in support of national outcomes. This is vital in supporting the long-term decision making required for essential public sector reform.

Introduction

1. This report summarises the findings from our 2021/22 audit of the Scottish Government Consolidated Accounts.

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2022 meeting of the Scottish Government Audit and Assurance Committee (SGAAC). This report comprises the findings from:

- an audit of the Scottish Government's Consolidated Accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the Code of Audit Practice 2016.

3. The main elements of our audit work in 2021/22 have been:

- an audit of the Scottish Government's 2021/22 Consolidated Accounts including the issue of an independent auditor's report setting out his opinions
- a review of the Scottish Government's main financial systems
- consideration of the four audit dimensions.

Adding value through the audit

4. We add value to the Scottish Government by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

5. The Scottish Government has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. The Scottish Government is responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity that enable the Corporate Board to successfully deliver its objectives.

6. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016, and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position, and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

7. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. Our annual audit report contains an agreed action plan at Appendix 1. It sets out specific recommendations, the responsible officers, and dates for implementation. It also includes any outstanding actions from last year and progress against these.

9. Appendix 2 provides our assessment of wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. Appendix 2 also identifies the work we undertook to address these risks and our conclusions from this work.

Auditor independence

10. Auditors appointed by the Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2021/22 audit fee of £1,181,440 as set out in our 2021/22 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

12. This report is addressed to both the Scottish Government and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

13. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2021/22 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

The independent audit opinion is unqualified. This means in our opinion, we are content the 2021/22 Scottish Government Consolidated Accounts show a true and fair view, following accounting standards, and that the income and expenditure for the year is lawful.

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

The independent audit opinion is unqualified

14. The annual report and accounts for the year ended 31 March 2022 were considered by the Scottish Government Audit and Assurance Committee (SGAAC) on 21 November 2022. 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, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The unaudited accounts were submitted in line with our agreed audit timetable

15. We received unaudited core schedules on 30 June 2022 in line with the agreed timetable. These were largely complete. We received the unaudited Consolidated Accounts on 21 September 2022. The unaudited Consolidated Accounts received had only a small number of incomplete sections where information was outstanding. This was a significant improvement from the prior year and helped towards the completion of the audit within the timescales agreed.

Whole of Government Accounts (WGA) will be late

16. The impact of the Covid-19 pandemic has resulted in the WGA process running progressively later over the last few years. In 2020/21, the NAO advised that, due to the late completion of the 2019/20 WGA, the process for 2020/21 was running late. Once the audit of the 2021/22 consolidated accounts has been completed, the audit of the 2020/21 and 2021/22 WGA will be completed.

Overall materiality is £492 million

17. Our initial assessment of materiality was carried out during the planning phase of the audit. This was revised on receipt of the unaudited consolidated accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality: This is the calculated figure used in assessing the overall impact of audit adjustments on the financial statements. It was set at one per cent of gross expenditure for the year ended 31 March 2022.	£492 million
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50 per cent of overall materiality.	£246 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This was calculated at one per cent of overall materiality but capped at £0.25 million	£0.25 million

Source: Audit Scotland

Significant findings to report on the annual report and accounts

18. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the Scottish Government's accounting practices, covering accounting policies, accounting estimates and financial statement disclosures. The significant findings are summarised in Exhibit 2.

Exhibit 2
Significant findings from the audit of financial statements

#	Issue	Resolution
1.	**Lochaber Aluminium Smelter**	
	Note 14 of the Consolidated Accounts refers to the Scottish Government's potential exposure to default payments in relation to 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. The provision increased to £161m at 31 March 2021. During 2021/22 there continues to be significant uncertainty regarding the financial stability of the GFG Alliance group. The Scottish Government reviewed the level of provision required with regards to their guarantee. The provision in the 2021/22 Consolidated Accounts was reduced by £47 million to £114 million. (refer to paragraphs 53 to 56 below)	We reviewed the Scottish Government assessment of their potential exposure on the financial guarantee. We concluded that, for 2021/22, the Scottish Government's approach to setting the level of provision against the potential exposure through the guarantee was reasonable.
2.	**Impairment of Vessels 801 and 802**	
	Ownership of vessels 801 and 802 and associated equipment and design rights were transferred from CMAL to the Scottish Government at 1 April 2020. For the financial year 2021/22, the Scottish Government capitalised £55 million for the building of vessels 801 and 802. Based on valuations of the vessels, an impairment of £52 million was applied to the 2021/22 capitalised value. The carrying value of vessels 801 and 802 in the Consolidated Accounts at 31 March 2022 is £78 million. (refer to paragraphs 47 to 50 below)	We reviewed the Scottish Government valuation process for vessels 801 and 802. We concluded that, for 2021/22, the Scottish Government's approach to the valuation of the vessels was reasonable.
3.	**European Structural and Investment Funds**	
	The European Commission's suspension of the Scottish Government's European Social Fund (ESF) was lifted on 31 October 2022.	We considered the Scottish Government's treatment of the potential non-recovery of income as a provision.

#	Issue	Resolution
	The 2021/22 Consolidated Accounts include a provision of £43 million for the potential under-recovery relating to the conversion of ESF operations to unit costs. (refer to paragraphs 61 to 66 below)	We concluded that the accounting treatment as a provision was appropriate with regards to accounting standards.
4.	**Social Security Scotland** Social Security Scotland, an executive agency, is consolidated into the Scottish Government's accounts as a separate component audited body. The 2021/22 accounts of Social Security Scotland include benefit expenditure of £3.3 billion administered by the Department for Work and Pensions (DWP) under an agency agreement with Scottish Ministers. Due to these delivery arrangements, Social Security Scotland cannot directly assess the levels of fraud and error in these benefits and is instead reliant on the DWP's annually published estimates. The estimated overpayments as a result of fraud and error in relation to each type of benefit that is delivered by the DWP, ranged from 1.5 to 5.2 per cent of expenditure. This means an estimated £67.5 million of overpayments were made in Scotland. As a result, the auditor qualified their regularity opinion as these overpayments were not incurred in accordance with relevant legislation and regulations. As a component audit, the qualified audit opinion on the Social Security Scotland accounts requires us to assess the potential impact of its inclusion within the Scottish Government's Consolidated Accounts.	We assessed the potential impact of the qualified opinion and considered the qualitative and quantitative impact of the auditor's opinion on expenditure as it applies to the Consolidated Accounts. We concluded that, for 2021/22, the likely amount of error and fraud incurred in benefits and allowances is not significant enough to influence the economic decisions of the users of the Scottish Government accounts and therefore the audit opinion is not qualified in respect of this matter.
5.	**Crown Office and Procurator Fiscal Service** The Scottish Government's Consolidated Accounts include special payments of £11 million made by the Crown Office and Procurator Fiscal Service (COPFS) during 2021/22 which relates to specific legal cases brought against the Lord Advocate by individuals prosecuted in connection with the acquisition and administration of Rangers	We assessed the disclosures relating to the COPFS special payments and provision and concluded that, for the 2021/22 accounts, the disclosures provided in the Scottish Government Consolidated Accounts were appropriate.

#	Issue	Resolution
	Football Club. A further £24 million has been included within provisions for liabilities and charges in respect of the same cases. The auditor of the COPFS noted in their 2021/22 Annual Audit Report that the COPFS overspent its annual budget by £5 million due to unplanned costs arising from ongoing court proceedings against the COPFS. The Scottish Government authorised the overspend. To date, the COPFS has accounted for £60 million of unplanned costs in connection with these claims against the Lord Advocate. Some cases have resolved, with sums paid to the pursuers totalling £35.5 million to March 2022 with a further £24.5 million provided in respect of cases still to be finalised. In February 2021, the Lord Advocate made a statement in the Scottish Parliament about this matter and has committed to further public accountability and to a process of inquiry once all litigation has concluded.	
6.	**Scottish Public Pensions Agency** The Scottish Government Consolidated Accounts reflect the assets and liabilities of all entities within the accounting boundary. All entities have now been audited and their accounts certified with the exception of the Scottish Public Pensions Agency (SPPA). Draft figures have been incorporated within the 2021/22 Scottish Government Consolidated Accounts. We have been advised by the external auditors that the audit has been impacted by staffing issues at the agency and that there are delays in receiving responses. We have discussed the nature of the anticipated adjustments and their value. At this stage, the external auditor is unable to say whether the opinion will be modified or not.	We assessed the potential impact of the adjustments advised by the independent external auditor. We also assessed the impact of a potential qualified opinion and considered the qualitative and quantitative impact of the auditor's opinion on expenditure as it applies to the Consolidated Accounts. We concluded that, for 2021/22, the potential impact of either a qualified opinion or errors not being corrected is not significant enough to influence the economic decisions of the users of the Scottish Government accounts and therefore the audit opinion is not qualified in respect of this matter.

Source: Audit Scotland

Covid-19 grants

19. The Scottish Government allocated £5.8 billion funding to support its Covid-19 response during 2021/22. The Governance Statement includes reference to the largest 2021/22 Omicron funding schemes and the level of potential fraud cases identified, prevented and realised.

20. It is the Scottish Government's responsibility to ensure it can appropriately assess the levels of error and fraud that may exist within its accounts. We reported in 2020/21 that the Scottish Government needed to regularly assess and improve its estimates of fraud and error in Covid-19 grant schemes and assure themselves that controls to detect and prevent fraud and error are working in practice. During 2021/22, the Scottish Government continued to strengthen the internal controls and utilised established systems and processes to minimise risk.

21. The Scottish Government has outlined how it obtained assurance on grants to local authorities for the payment of these large support schemes including its own estimate of fraud and error. The Scottish Government estimates this to be no more than one to two per cent of payments, similar to its estimate in 2020/21. Review of fraud levels at local government level has been informed through engagement with local internal auditors and other delivery partners. We are content that the estimate is not unreasonable and are pleased to note the Scottish Government being more proactive in its assessment of fraud and error and their disclosures within the Consolidated Accounts.

Student loans

22. In our 2020/21 annual audit report, we referred to a significant number of discrepancies between working papers, disclosures in the accounts and the financial ledger during our audit of student loans. There was also a lack of clarity on specific responsibilities over accounting for student loans between the Scottish Government and Students Awards Agency Scotland (SAAS). We are pleased to record the improvement in the working papers and engagement with the audit team during our 2021/22 audit.

23. We have reported previously that the student loans valuation model is long-term in nature and depends on a complex set of assumptions. These assumptions remain volatile given the level of uncertainty in the economy at present and resulted in a significant variance in the 2021/22 fair value adjustments affecting the student loans asset as compared to prior year adjustments.

24. The responsibility for the model being fit for purpose lies with the Scottish Government. We have discussed with finance staff the need to introduce a formal process of checks and sign off. These checks could usefully include, examining quality assurance documents produced each year by the Department for Education and questioning issues identified, evaluating the outcomes of previous estimates produced by the model against actual results and reviewing outputs from each run of the model against expected outputs. We are aware that the Scottish Government intends to document checks already performed starting with the next run of the model in autumn 2022.

Non-current assets

25. The Scottish Government Consolidated Accounts record property, plant and equipment assets and intangible assets of £34 billion. The core Scottish Government holds assets worth £616 million. Our audit review noted:

- As at 31 March 2022, there are 2,493 assets with a 'nil' net book value which represents 55 per cent of the assets listed on the fixed asset register. We are aware that the Scottish Government undertakes an annual asset verification exercise to identify assets which are no longer in use and which should be removed from the register. This should result in assets that are no longer in use being removed from the register, or alternatively, asset lives being re-evaluated.

- Assets Under Development (AUD) costs for specific projects are split across a number of asset reference numbers, instead of being included under a single identifier. In addition, AUD descriptions are unclear and do not identify which project the spend relates to. Naming conventions should be improved.

26. The Scottish Government advised it is currently evaluating longstanding, ongoing projects to assess whether the accounting for the expenditure under AUD is appropriate. During the audit process, a further £5 million was written off after it was identified that spend was not capital in nature. The Scottish Government's review of AUD expenditure continues in 2022/23.

27. As part of its corporate transformation programme, the Scottish Government intends to implement a new financial ledger during 2023 to replace the current main accounting system. We have been advised that the Scottish Government intends to undertake a data cleansing exercise of all information held on the fixed asset register in advance of the introduction of the financial ledger system.

Cash management

28. As at 31 March 2022, the Scottish Government Consolidated Accounts records cash balances of £1,052 million of which £925 million is held by the Scottish Government itself. This represents a significant increase (61 per cent) from £573 million held at the end of March 2021. The amounts drawn down are based on forecasts determined by the Scottish Government over how much cash it will need. We were advised that March was particularly volatile this year with very late adjustments to Health allocations and cash requirements.

29. The Scottish Public Finance Manual states that the principles underlying the operation of government bank accounts should be the same as those applied to commercial bank accounts. This includes keeping balances to a minimum consistent with the principles of not providing funding in advance of need. The Scottish Government advised that they continue to manage cash balances at minimum levels when possible but must be able to respond to anticipated cash requirements.

We identified risks of material misstatements to the financial statements as part of our planning process

30. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. Exhibit 3 sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed. Paragraph 31 refers to other areas of audit focus.

Exhibit 3

Significant risks of material misstatement in the financial statements

#	Audit risk	Assurance procedure	Results and conclusions
1.	**Risk of fraud caused by the management override of controls** As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	Assess the design and implementation of controls over journal entry processing. Testing of journal entries including year-end and post-closing entries. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantive cut off testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Focussed testing of accounting accruals and prepayments. Consideration of the results of controls testing. Consideration of internal audit reports.	We undertook a range of audit work including: • detailed testing of journal entries, prepayments, accruals, accounting estimates and unusual transactions • reviewing relevant internal audit reports • cut off testing • reviewing the results of controls testing and adjusted our payroll substantive testing. The results of this audit work were satisfactory.

#	Audit risk	Assurance procedure	Results and conclusions
2.	**Estimation and judgements**		
	Significant estimation and judgement are required in the measurement, valuation and disclosures of material account balances, including student loans, financial assets, provisions, contingent liabilities and financial guarantees. Specifically, in relation to student loans, the assumptions used in the valuation model are highly dependent on the macroeconomic environment and are likely to vary in the short term. Estimations and judgements create a higher risk that material areas in the accounts could be misstated.	Review of the student loans model (assumptions and application). Focused substantive testing on student loans, investments and provisions. Review of the identification of, and record of, contingent liabilities, guarantees, indemnities and letters of comfort. Test assumptions in contingent liability financial modelling. Review the disclosure of student loans, investments, provisions, contingent liabilities and guarantees. Assessment of management experts in conjunction with consideration of associated reports.	Our audit work included: • a review of the student loans model • a review of contingent liabilities, assets, guarantees, indemnities and letters of comfort which identified a number of errors which were amended • an assessment of the management experts used by Scottish Government to provide an estimation of the Lochaber smelter provision level and the valuation of non-current assets. Our audit work was concluded satisfactorily.

Source: Audit Scotland

Other areas of audit focus

31. We identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The areas of specific audit focus were:

- **Risk of fraud in expenditure:** The high volume and diverse nature of expenditure incurred by the Scottish Government results in a risk of fraud over expenditure.

- **Presentation of financial statements:** There is a risk that the audit is not completed in line with the statutory timetable and that the financial statements are qualified due to an absence of appropriate working papers.

- **Student loans:** In 2020/21, we identified a significant number of discrepancies between working papers, disclosures in the accounts and the financial ledger during our audit of student loans. There is a risk that the accounting and disclosures are not in accordance with agreed procedures resulting in a material misstatement in the financial statements.

32. We kept these areas under review throughout our audit and there are no matters which we need to bring to your attention.

Evaluation of misstatements

33. There were presentational and monetary adjustments to the unaudited annual report and accounts arising from our audit. These were discussed with senior officials who agreed to make the necessary changes.

34. Gross monetary misstatements (errors) for the Scottish Government core portfolios, in excess of the 'reporting threshold' amount (£0.25 million) totalled £56.0 million and were adjusted in the final accounts.

35. We are required to report to those charged with governance all unadjusted misstatements which we identified during our audit, other than those of an insignificant small amount. The total unadjusted error within the Consolidated Accounts is £73.5 million. This balance is made up of £18.4 million relating to the core Scottish Government, £32.1 million relating to NHS bodies and £23 million relating to agencies and other consolidated bodies. Appendix 3 shows the unadjusted errors and their impact on the annual report and accounts. If these errors had been adjusted, the net impact would have been to decrease net expenditure and increase net assets by £19.7 million.

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

Follow up on prior year recommendations

37. The Scottish Government has made progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1.

2. Financial management

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Main judgements

Total spending was £1,988 million less than budget. The resource budget was underspent by £1,822 million (3.7 per cent) against a budget of £49,023 million and capital was underspent by £166 million (7.5 per cent) against a budget of £2,202 million.

The Scottish Government allocated £5.8 billion funding to support its Covid-19 response activity during 2021/22. This formed a significant part of the Scottish Government's financial response to supporting the health service, businesses, local government and the wider economy during the year.

Scottish Government underspent its budget by £1,988 million in 2021/22

38. The Consolidated Accounts show that total net expenditure during 2021/22 was £49,237 million, £1,988 million less than budget (Exhibit 5). The resource budget was underspent by £1,822 million (3.7 per cent) against a budget of £49,023 million and capital underspent by £166 million (7.5 per cent) against a budget of £2,202 million.

39. Total net expenditure was £884 million (1.8 per cent) less than in 2020/21, reflecting the reduced levels of additional public spending committed to responding to the Covid-19 pandemic.

40. High-level reasons for significant variances between actual and budgeted spend are included in the Consolidated Accounts. The largest variances relate to underspends in the Education and Skills portfolio (£806 million), the Finance and Economy portfolio (£536 million), and the Net Zero, Energy and Transport portfolio (£475 million). The Scottish Government reported that the underspend in the Education and Skills portfolio relates predominantly to the costs of providing student loans which uses a complex economic model and which is affected by interest rate movements. This underspend represents a non-cash saving which cannot be used to fund expenditure elsewhere.

41. The variances for the Finance and Economy portfolio included underspends in relation to Covid-19 business support grants, self-isolation grants and lower demand on business ventilation funds. Similarly, underspends in the Net Zero, Energy and Transport portfolio were attributed to demand for energy programmes being severely impacted by Covid-19 as well as delays caused by supply chain issues for energy projects.

£5.8 billion was allocated to support the Covid-19 response

42. The Scottish Government allocated £5.8 billion funding to support its Covid-19 response activity during 2021/22. This formed a significant part of the Scottish Government's financial response to supporting the health service, businesses, local government and the wider economy during the year.

43. High-level details are provided in the Scottish Government's accounts over how this money was spent during the year. The highest spending portfolios were Health and Social Care (£2.6 billion), Social Justice, Housing and Local Government (£1.5 billion) and Finance and Economy (£789 million). Although this information is welcome, it does not provide the public with a comprehensive understanding of how Covid-19 funding was allocated including clear lines of sight between budgets, funding announcements and spending levels. Similarly, it does not provide information on how any underspends were reallocated or added to reserves. The recovery from Covid-19 will continue for some years to come so transparency over how funding was spent remains important.

Exhibit 5
Performance against Consolidated Accounts budget in 2021/22

Performance	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	49,023	47,201	(1,822)
Capital	2,202	2,036	(166)
Total	**51,225**	**49,237**	**(1,988)**

Source: Scottish Government Consolidated Accounts 2021/22

Financial support to private companies

44. In recent years, the Scottish Government has taken a direct role in providing financial support to private companies in the form of equity, loans and guarantees and taken certain businesses into public ownership in addition to support provided through its enterprise agencies, Scottish Enterprise, Highlands and Islands Enterprise and South of Scotland Enterprise.

Prestwick Airport

45. In November 2013, the Scottish Government purchased Prestwick Airport for a nominal price of £1 with the stated aim of protecting jobs and safeguarding what it considered to be a strategic infrastructure asset. The total level of loan support provided up to 31 March 2022 is £43.4 million, although this was valued at £11.6 million in Transport Scotland's accounts at the financial year end following an independent valuation. A further £1.1 million interest charges have accrued during the year resulting in total accrued interest of £7.4 million. In keeping with Transport Scotland's approach in previous years, the interest on these loans has been impaired to nil.

46. In December 2021, it was agreed that the sale process to return Glasgow Prestwick Airport to the private sector would end and the business would continue in public ownership for the time being. It remains the intention of the Scottish Government to return the business to the private sector at a future date.

Ferguson Marine (Port Glasgow) Holdings Limited

47. Over 2017 and 2018, the Scottish Government provided commercial loan facilities totalling £45 million to Ferguson Marine Engineering Limited (FMEL), a shipbuilding and engineering company based in Port Glasgow. The purpose of the loans was to support FMEL's completion of a contract to build two 'dual-fuel' ferry vessels (Vessels 801 and 802) for Caledonian Maritime Assets Limited (CMAL). By April 2019, FMEL had drawn down the full loan facility of £45 million and no extended facilities were provided.

48. In August 2019, FMEL entered administration which led to the Scottish Government acquiring the business in December 2019 following a review of bids by the administrator. Following administration, a new company was established, known as Ferguson Marine (Port Glasgow) Holdings Limited (FMPG). FMPG is a company wholly owned by Scottish Ministers established under the Companies Act 2006. It does not fall within the boundary of the Scottish Government's Consolidated Accounts.

49. As part of the reorganisation of the contractual arrangements, the Scottish Government entered into new contracts with FMPG for the completion of work on Vessels 801 and 802 as at 1 April 2020. 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 through the Scottish Government 2020/21 Consolidated Accounts. During 2021/22, the Scottish Government wrote off £52 million from the capital value. The value of vessels 801 and 802 in the Consolidated Accounts at 31 March 2022 was £78 million.

50. In March 2022, we published a report assessing the management of the project to deliver Vessels 801 and 802 (New vessels for the Clyde and Hebrides). The audit focussed on events after Scottish Ministers announced Ferguson Marine Engineering Limited (FMEL) as the preferred bidder for the vessel contracts in August 2015 and reviewed the initial arrangements in place to manage the project and how well the Scottish Government, Transport Scotland and CMAL responded when problems arose. The report made a number of recommendations to help improve the management of similar projects.

Burntisland Fabrications Limited (BiFab)

51. In 2018/19, the Scottish Government converted £37.4 million commercial loans into equity in BiFab representing a total equity stake of 32 per cent. In the 2019/20 Consolidated Accounts, the Scottish Government's equity stake was valued at nil to reflect expected losses in line with accounting requirements. During 2020/21 the Scottish Government provided further loans of £13.5 million to BiFab to help the completion of outstanding contracts. These loans were subsequently written off after BiFab went into administration due to its challenging financial position.

52. The Consolidated Accounts refers to the subsequent sale of the business in February 2021. There has been no change in 2021/22 and the Scottish Government, as a secured creditor, continues to work with the administrators to maximise the recovery of public money.

Lochaber Aluminium Smelter – Liberty Group

53. In December 2016, the Scottish Government issued a 25-year financial guarantee contract to SIMEC Lochaber Hydropower Limited. This contract guarantees the power purchase obligations of the Liberty Aluminium Lochaber Limited smelter if the business does not fulfil its obligations to pay for contracted power. The Scottish Government receives an annual fee in return for the guarantee.

54. The annual exposure to the Scottish Government is between £14 million and £32 million, over the lifetime of the contract. At the start of the contract in December 2016, the total potential financial exposure to the Scottish Government was £586 million. To reduce the exposure of the contract, the Scottish Government created a security package which includes first line security over the hydro plant, the smelter and land which formed part of the original purchase of the smelter by the GFG Group.

55. There remains significant uncertainty regarding the financial stability of the GFG Alliance Group which impacts on the likelihood of a call on the guarantee. In March 2021, Greensill Capital (UK) Limited, a major provider of working capital to GFG Alliance, went into administration. This impacts on the Lochaber smelter as it is a subsidiary of Liberty Industries UK Limited, alongside Liberty Steel Limited, under GFG Alliance. The situation is further complicated as the hydro power station that supplies the smelter is owned by GFG Alliance through its other main group of companies, SIMEC. GFG continue to publicly state their commitment to investing in the area, and we are aware that GFG Alliance submitted plans for a new £94 million recycling and casting facility, which were approved by the Highland Council in September 2021.

56. With the ongoing uncertainty regarding the financial stability of the GFG Alliance group, the Scottish Government reviewed the level of provision required with regards to their guarantee. The provision in the Consolidated Accounts increased from £37 million in 2019/20 to £161 million as at 31 March 2021. The Scottish Government has assessed that the level of provision required for their guarantee was £114 million as at 31 March 2022. We have concluded for 2021/22, the Scottish Government's approach to setting the level of provision against the potential exposure through the guarantee is reasonable.

The strategic approach to financial interventions

57. In recent years, we have highlighted the need for the Scottish Government to learn lessons from its experience of recent financial interventions in private companies. We noted that in adopting a framework for investment, it is important that the Scottish Government clearly outlines its plans for future investment in private companies to ensure there is greater transparency over the value of financial support provided, the risks involved and the expected outcomes for the public.

58. In March 2022, the Scottish Government published its Business Investment Framework to outline its principles and approach for decisions about future investment in private companies. The framework forms part of its investment guidance within the Scottish Public Finance Manual. We welcome the publication of the framework. It should help the Scottish Government provide a structure to future investment decision-making and highlight the many areas that require consideration before funds are committed.

59. There is scope to further develop the framework by, for example, strengthening financial control over interventions and during the period of intervention, and expanding commercial outcomes to include outcomes for the public such as jobs and future growth opportunities. The framework should also make a direct link between risk tolerance and risk appetite for investment while considering the financial capacity of the Scottish Government. There is also scope to strengthen the guidance by removing some of the flexibilities in the application of the principles.

60. During 2022, the Strategic Commercial Assets Division (formerly the Strategic Commercial Investments Division) was formed. The roles and responsibilities of the Division mirror those of its predecessor which was slow to develop. Its main purpose is to consolidate expertise and knowledge and increase capacity to respond to cases that arise seeking support or intervention from the Scottish Government. The Division is not expected to be fully established until December 2022. To date, the Division has been largely focussed on the oversight of Ferguson Marine (Port Glasgow) Ltd.

Recommendation 1

The Scottish Government should further develop the framework for investment in private companies by, for example, strengthening financial control over interventions and expanding commercial outcomes. The framework should also make a direct link between risk tolerance and risk appetite for investment while considering the financial capacity of the Scottish Government.

European Structural and Investment Funds

61. The Scottish Government is responsible for managing two European Structural and Investment Funds for the period 2014 to 2020; the European Social Fund (ESF) and the European Regional Development Fund (ERDF). The Funds remain operational with access to funding available until June 2024.

62. In November 2019, the EC placed the ESF programme in suspension after the Scottish Government was unable to resolve all outstanding issues by this deadline. While programmes are suspended, the Scottish Government's claims to the EC for reimbursement of funds will not be paid until all issues identified are resolved.

63. In 2020/21, the Scottish Government recognised that implementing the agreed methodology will likely result in greater expenditure over the course of the programme than can be reclaimed from the EC. As a consequence, and in line with accounting standards, the Scottish Government wrote off £16 million in the 2020/21 Consolidated Accounts in respect of grant payments already made. This estimate was reviewed and revised downwards to £14 million in 2021/22.

64. The Scottish Government has reviewed the level of provision required relating to the future under-recovery of costs and has provided a further £14 million in 2021/22 resulting in the recognition of a total provision of £43 million at 31 March 2022.

65. Formal agreement from the EU lifting the suspension was received on 31 October 2022 as the conditions for lifting the suspension were met.

66. Following the UK's withdrawal from the European Union, ESF and ERDF funding will be replaced by UK Government-led funding programmes including the Shared Prosperity Fund, Community Renewal Fund, Community Ownership Fund and the Levelling-up Fund. Guidance setting out the requirements of the Shared Prosperity Fund was issued in August 2022. The UK Government has committed to match previous EU funding. Under the Withdrawal Agreement, the UK will continue to participate in the Multiannual Financial Framework programmes, like the ESF, until they end in 2024.

Apart from payroll, financial systems of internal control are operated effectively

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

68. Our findings from the review of systems of internal controls were included in our Management Report presented to the Scottish Government Audit and Assurance Committee in June 2022. We concluded that, other than Payroll, the Scottish Government's main systems of internal control operate effectively.

69. Our testing identified cases where controls did not operate as expected, mainly within the payroll system. Our findings on payroll included actions identified from previous years' audits where management action remains outstanding. We recognise that several improvements to the control environment have been introduced over the course of the financial year.

70. It is essential that management take action to address these weaknesses to ensure that risks to the systems are minimised and the integrity of the systems is maintained. Control weaknesses identified in previous years which are not addressed by planned management actions increase the risk of fraud and error remaining undetected. It is anticipated that the introduction of the new eHR and payroll system in 2023 will address many of the control issues identified.

3. Financial sustainability

Financial sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

The Scottish Government borrowed to support revenue and capital expenditure in 2021/22. During the year, it borrowed £319 million for revenue purposes and £150 million for capital purposes, both from the National Loans Fund.

Due to the accumulation of annual borrowing, loan repayments are increasing and totalled £95 million in 2021/22. The Scottish Government will need to manage the pressure of repayments alongside all other financial pressures in the years ahead.

The financial pressures facing the Scottish Government have intensified in recent months due to tougher economic conditions. These pressures include higher inflation, increased interest rates and public sector pay. These all add pressure to already constrained budgets. The Scottish Government will need to ensure that recurring savings are achieved in the longer term.

The Scottish Government should continue to strengthen its focus on longer-term financial sustainability. In doing so, it should ensure its policy choices and spending commitments are fully costed and transparently reported, particularly where there are funding implications for the wider public sector.

The Scottish Government has committed to the development of a devolved public sector account on a two-stage basis, but progress has been delayed.

2021/22 financial position

71. 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 (arising from the Scottish Block Grant, borrowing and devolved taxes) and how much resulted from changes in the value of physical assets over time.

72. Taxpayers' equity has increased in each of the last five years from £32.6 billion to £37.6 billion, largely due to an increase in physical assets (such as property and roads) and financial assets (such as loans and investments). Total liabilities (such as payments for private-financed projects) have increased from £9.9 billion in 2020/21 to £10.9 billion in 2021/22. It is important to note that the position does not reflect all the assets and liabilities of the Scottish public sector. Key assets and liabilities are excluded such as resource and capital borrowing, local government borrowing, and all public sector pension liabilities funded from the Scottish budget. This demonstrates the need for the development of a public consolidated account for the devolved public sector in Scotland (see paragraphs 89-93)

Capital and resource borrowing were utilised during 2021/22

73. Under the terms of the Scotland Act 2016, Scottish Ministers can borrow up to £3 billion for capital purposes, with an annual borrowing limit of 15 per cent (£450 million) of the overall borrowing cap. In 2021/22, the Scottish Government borrowed £150 million. This was less than the £450 million outlined by Scottish ministers as part of the 2021/22 Scottish budget. The loan will be repaid to the National Loans Fund over 20 years. This is in line with timescales outlined in the Fiscal Framework. The Scottish Government have advised that 2021/22 borrowing was used to support its overall capital programme although no detail of the assets being purchased through the loan is provided within the Consolidated Accounts. We have reported previously that the Scottish Government needs to increase transparency over its capital borrowing plans including how these apply to individual projects within its programme. This will help support Parliament’s scrutiny of its capital investment programme.

Recommendation 2

In order to support better parliamentary scrutiny of its capital investment programme, the Scottish Government should increase transparency over its capital borrowing plans.

74. In 2021/22, the Scottish Government borrowed to fund resource expenditure for the second year running. During the year it borrowed £319 million from the National Loans Fund to be repaid over five years. The £300 million limit for resource borrowing was revised to £600 million for financial years 2021/22 to 2023/24 due to the conditions for a Scotland-specific shock being met. The Scottish Government can only apply this borrowing to meet forecast error in relation to receipts or demand-led Social Security spending.

75. As at 31 March 2022, the total principal level of capital borrowing outstanding was £1,309.9 million, with interest of £174.3 million applying over its remaining life. Resource borrowing outstanding at 31 March 2022 was £505.5 million with interest of £16 million accruing over the five-year repayment period.

76. Resource borrowing is repaid over a shorter time period (five years) than capital borrowing which is up to twenty-five years. Due to the accumulation of annual borrowing in recent years, loan repayments are increasing and totalled £95 million in 2021/22. The Scottish Government will need to continue to manage the pressure of repayments alongside all other financial pressures in the years ahead.

77. Details of the overall loan, repayments and interest payments are outlined in the Consolidated Accounts. The Scottish Government's borrowing and associated repayments are made via the Scottish Consolidated Fund (SCF). Borrowed amounts and repayments are made between the SCF and HM Treasury with the corresponding adjustments made to funding received by the Scottish Government from the SCF. This means there is no associated liability disclosed in the Statement of Financial Position within the Scottish Government's Consolidated Accounts. Details of the amount of capital borrowing and the associated liability are set out within a separate account prepared for the SCF.

Economic pressures have had an impact on the Scottish Government’s financial sustainability

78. In May 2022, the Scottish Government published its first Resource Spending Review (RSR) since 2011. The RSR sets out indicative spending plans for five years up to 2026/27 aimed at delivering on its Programme for Government and Bute House Agreement commitments. It also highlights the economic and fiscal challenges facing the government over the medium term. High-level spending plans are outlined for each government portfolio and include a number of assumptions and expectations such as current tax forecasts under a central scenario, the delivery of three per cent efficiency savings from all public bodies, and maintaining public sector pay costs at around 2022/23 levels.

79. In May 2022, the Scottish Government also provided an update to their 2021 Capital Spending Review (CSR). The 2022 CSR covers the three-year period from 2023/24 to 2025/26. The CSR highlights plans for additional capital borrowing to fund the capital programme to support the implementation of the Government’s Infrastructure Investment Plan. The Review also notes an element of over-programming to maximise the use of available funding: the management of the capital programme will be essential to ensure the Scottish Government takes full advantage of the funding available.

80. Also in May 2022, the Scottish Government produced its fifth Medium-Term Financial Strategy (MTFS). The strategy aims to provide an assessment of the medium-term outlook for Scotland's public finances covering years 2022/23 to 2026/27. The 2022 Strategy sets out its assessment of Scotland’s economic and fiscal outlook, as well as a broad spending outlook considering the effects of changing funding levels for government spending as outlined in the RSR.

81. Together, the MTFS, RSR and CSR give a welcome focus on medium and longer-term financial planning. Since their publication, the financial pressures facing the Scottish Government have intensified as tougher economic conditions such as higher inflation and increased interest rates have emerged in recent months. Public sector pay issues remain unresolved in key sectors such as nursing and midwifery, rail transport and teaching which will likely add further pressures both in the current financial year and beyond. Demand for health and social care services remains unsustainable while the number of people accessing social security benefits is significant, adding considerable pressures to already constrained budgets.

82. In recent months, the Scottish Government has worked with NHS bodies and local authorities to consider ways to ease financial pressures. This involved exploring options to utilise funding held in reserves by local authorities and health and social care integration joint boards. For example, the Scottish Government has provided councils with a capital grant of £120.6 million in 2022/23 and 2023/24 which councils are able to substitute with monies currently sitting in their reserves or planned revenue expenditure. This aims to release revenue-related aspects of earmarked reserves to help fund local government pay awards.

83. Similarly, in February 2022, £619 million of Covid-19 funding was distributed to integration authorities to be held in earmarked reserves. The Scottish Government has since indicated that, due to changes in public health policies in recent months, this funding is unlikely to be required in full and therefore plans to reclaim surplus reserves from integrated joint boards later this year to apply them elsewhere to fund covid costs for non-delegated services.

84. Using reserves to smooth financial commitments over several years is an important component of good financial management. Accessing reserves may provide some short-term relief to financial pressures, however, the use of reserve balances to support recurring pressures is not sustainable in the longer term. There is a need for greater transparency over the Scottish Government's policy and approach to using reserves to manage existing cost pressures, particularly where there are funding implications for the wider public sector. This should include an assessment of reserve balances held by public bodies, their intended purpose as well as any plans to access monies held. The associated opportunities and risks of accessing reserves should be clearly articulated and documented. This will allow greater parliamentary scrutiny over the Scottish Government's financial decision-making, particularly when there are significant and immediate cost pressures.

Recommendation 3

The Scottish Government should continue to strengthen its focus on longer-term financial sustainability. In doing so, it should ensure its policy choices and spending commitments are fully costed and transparently reported, particularly where there are funding implications for the wider public sector.

Scotland Reserve

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

86. The Reserve is capped at £700 million and annual drawdowns from the Reserve are limited to £250 million for resource and £100 million for capital. These drawdown limits were removed for years 2021/22 to 2023/24 as the Scottish Fiscal Commission forecast a Scotland-specific economic shock.

87. The Scottish Government's policy is to apply any underspends for use in the following financial year. The 2021/22 provisional outturn statement (published June 2022) notes that £608 million was used to support expenditure in 2021/22 with a further £650 million due to be applied in 2022/23 and will be confirmed following the audit of the 2021/22 consolidated accounts.

88. There is publicly available information about the Scottish Government's approach to the Scotland Reserve. There is also information available about the intended drawdowns from the Reserve to support annual spending plans. The Reserve balance is not disclosed within the Scottish Government Consolidated Accounts. There is an opportunity for the Scottish Government to increase transparency in the Consolidated Accounts and raise awareness about the balances held within the Scotland Reserve and the movements of funds into, and out of, the Reserve each year. This will strengthen the Scottish Government's financial reporting and provide Parliament and the public with a better understanding of the Reserve's purpose, its application in supporting spending plans and also its limitations.

Recommendation 4

The Scottish Government should increase transparency within the consolidated accounts about the balances held within the Scotland Reserve and the movements of funds within it. This will provide Parliament and the public with a better understanding of the Reserve's purpose, its application in supporting spending plans and its limitations.

Development of a public sector consolidated account remains slow

89. In 2016, the Scottish Government committed to producing a consolidated account to cover the devolved public sector in Scotland including total assets, investments, and liabilities such as local government borrowing and public sector pension liabilities.

90. Some progress has been made in the preparation of the devolved public sector account. In 2020/21, the Scottish Government committed to a two-stage process. The first stage, which combines the Scottish Administration level together with the other directly funded bodies, was to be submitted for audit by Spring 2022. A draft version was provided for comment in April 2022 with a response provided in early July. The second stage plans to explore further the use of the UK Whole of Government Accounts process to obtain information about NDPBs, other public bodies and local authorities.

91. There have been delays in finalising the 2020/21 UK Whole of Government Account which forms the basis for these accounts due to ICT issues at HM

Treasury. In addition, Scottish Government finance staff availability has impacted progress. Progress in finalising the stage one draft account for audit remains slow with the Scottish Government prioritising the preparation of the 2021/22 Consolidated Accounts. The Scottish Government needs to revise its timetable for completion, taking account of both ICT issues and staff availability.

92. The consequences of the pandemic, challenging global economic conditions, the cost of living crisis together with existing pressures in public services, all pose significant risks to the sustainability of Scotland's public finances. The need for a public consolidated account to provide a comprehensive and transparent assessment of the state of Scotland's public finances has never been greater. This is important for decision-making over the longer term as it will provide information about the impact of past decisions on future budgets, the potential risks to financial sustainability, the scale of assets and liabilities and the opportunity to re-think how public finances are managed as the Scottish Government seeks to deliver public service reform.

93. The Scottish Government needs to move swiftly towards fulfilling their commitments to producing this important account.

Recommendation 5

The Scottish Government should fulfil its commitments to producing public sector consolidated accounts as soon as possible.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

The volume of challenges faced by the Scottish Government throughout the year meant there continued to be considerable strain placed on staffing capacity and wellbeing. This is likely to intensify in the years ahead given the Scottish Government's intention to limit the size of the public sector workforce to pre-Covid levels by 2026/27 and hold the total public sector pay bill at 2022/23 levels.

Following the appointment of the new Permanent Secretary, the Executive Team's role and responsibilities were reviewed. The Executive Team now meets twice weekly in different 'modes', aimed at addressing the key priorities and issues facing the Scottish Government. We welcome this development and the renewed focus it aims to have on addressing key priorities and issues.

Corporate transformation is a way for the Scottish Government to achieve greater efficiencies in the longer term and is an urgent priority. There is uncertainty over timescales and available funding to deliver the whole programme.

Governance arrangements continue to operate effectively

94. 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 organisation 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 for the organisation and any significant internal control issues in 2021/22. We are content that the Governance Statement is consistent with the financial statements and has been prepared in accordance with guidance issued by the Scottish Ministers.

95. The Scottish Government continued to strengthen aspects of its governance arrangements during 2021/22. There remained a strong focus on the impact of the Covid-19 pandemic on the organisation as well as an increased focus on performance and delivery towards the end of the year. Risk management processes continued to improve, most notably, in risk identification and escalation. Further work is required to ensure that actions proposed to manage and mitigate risks are robust and anticipated future risk levels and timescales are realistic. The volume of challenges faced by the Scottish Government throughout the year meant there continued to be considerable strain placed on staffing capacity and wellbeing. This is likely to intensify in the years ahead given the Scottish Government's intention to limit the size of the public sector workforce to pre-Covid levels by 2026/27 and hold the total public sector pay bill at 2022/23 levels. A comprehensive workforce strategy is required to ensure that its approach to staffing levels is appropriately planned and coordinated across the organisation.

Recommendation 6

The Scottish Government should develop a comprehensive workforce strategy to ensure that its approach to staffing levels is appropriately planned and coordinated across the organisation.

96. There were several changes to the Scottish Government's Corporate Board during the year. In January 2022, a new Permanent Secretary took up post and shortly prior to this, in November 2021, two interim Directors General were appointed for Net Zero and Economy, splitting the previous remit of Director General Economy. Recruitment is underway for appointing to these posts on a permanent basis.

97. Established assurance arrangements are in place to provide and support the new Permanent Secretary in his role as principal accountable officer. Quarterly assurance group meetings are held with directors general, directors and NXDs, together with various corporate groups covering areas such as infrastructure investment, performance, people and place. There are also weekly Executive Team meetings and quarterly meetings of the Corporate Board. The Scottish Government's Audit and Assurance Committee, chaired by an NXD, oversees the assurance process. Following the appointment of the new Permanent Secretary, the Executive Team's role and responsibilities were reviewed. The Executive Team now meets weekly but in different 'modes', aimed at addressing the key priorities and issues facing the Scottish Government. These different modes include delivery (weekly meetings to consider priorities, risk and finance); strategy (fortnightly meetings covering corporate matters) and people (fortnightly meetings covering workforce matters). We welcome this development and the renewed focus it aims to have on addressing key priorities and issues.

98. This new approach to the running of the Executive Team provides an opportunity for a further review of governance arrangements within the Scottish Government. Many of the main governance groups referred to above are attended by the same individuals (both executive and non-executive) and cover similar topics, themes and risks. This introduces risks of duplication, inefficiency, or the potential for blurred lines of responsibility between the different roles and remits of each group. The role of the Audit and Assurance Committee is paramount in ensuring that efficient and effective arrangements are in place to support its role in providing advice, support and challenge to the Permanent Secretary, and in doing so, promoting good governance across the organisation. Such a review would offer the Scottish Government the opportunity to consider further its governance and operational structures, streamline its decision-making processes, and assess senior membership and attendance to ensure it can fully support the various demands, both internal and external, on the organisation in the years ahead. This is particularly important during a continuing period of change and uncertainty.

Recommendation 7

A review of governance arrangements within the Scottish Government should be undertaken to consider risks of duplication, inefficiency, or unclear lines of responsibility within its governance structure.

Cultural and behavioural changes are needed to foster positive change with sponsor bodies

99. The Scottish Government's arrangements for sponsoring public bodies remains an area of concern. Last year, we reported that the Public Bodies Support Unit (PBSU) had restarted its support and training role for sponsors, board members and accountable officers.

100. During 2021, the Scottish Government commissioned an external consultant to conduct a review of the Scottish Government's relationships with public bodies. The report made 14 recommendations which were accepted by the Scottish Government. The Permanent Secretary has committed to all recommendations being implemented by the end of 2022. The PBSU has been proactive in attending each DG-led assurance group and the Audit and Assurance Committee to outline required actions. The Permanent Secretary expects all Directors General to have established the recommendations as best practice and will seek assurance of that. In addition, steps are being taken to ensure matters of concern within sponsored bodies are escalated through the assurance group process to ensure visibility across the Scottish Government.

101. We are pleased to see the commitment shown by the Scottish Government to addressing the recommendations made in the report. We remain concerned as to whether actions will fully address each recommendation or whether actions identified will be delivered within the timescales planned such as: the development of further guidance on establishing new public bodies; self-assessment checklists for sponsored bodies; training modules on risk, managing difficult relationships and difficult situations; and the roll out of 'stress-test' exercises. The report referred to significant levels of churn resulting in inexperienced staff in sponsorship roles as well as many vacant posts amongst sponsor teams meaning that the delivery of actions, leading to improvements across the Scottish Government, will be very challenging.

102. More significantly, it will take a much longer timeframe for the Scottish Government to be able to fully demonstrate the impact of actions taken in response to the recommendations. This largely stems from the cultural and behavioural changes needed to foster good relationships with public bodies over time. Similarly, the benefits realised from improvements in training and support offered to sponsor teams will take time to evidence. We will continue to review the impact of actions taken in forthcoming audit work.

Corporate transformation

103. We have reported in previous years about a lack of investment in core IT systems of the Scottish Government. The risk that the current systems are no longer fit for purpose has been recognised by the Scottish Government.

104. The Governance Statement refers to corporate transformation being an urgent priority for the Scottish Government. Corporate transformation is a way for the Scottish Government to achieve greater efficiencies in the longer term. We are aware that there is uncertainty over available funding to deliver the whole programme and no committed timeline for the project.

105. As part of this corporate transformation, the Scottish Government intends to implement both a human resources and financial planning system during 2023 to replace the current main accounting and e-HR systems. The new system is to be rolled out to both core Scottish Government and its 36 shared-service clients with an estimated cost of £55 million over the next seven years. This includes payments to partners who manage different aspects of the system. The project is currently in the design phase prior to moving to build phase.

106. We are aware of a number of challenges around this project. These include capacity and capability of staff resources and slower progress than originally planned due to design and validation issues. The expectation is that the new HR module will be introduced between July and September 2023, followed by the introduction of a new finance system and associated modules by the end of 2023.

107. There is a risk that corporate transformation will not deliver fully on its stated aims within planned timescales and within cost estimates. It is essential that there is clarity over how this programme is funded and when it is expected to be fully implemented. We will continue to monitor progress on this transformation programme including the new human resources and financial planning systems and their implementation across each of its clients.

Recommendation 8

The Scottish Government should provide clarity over how the corporate transformation project will be funded and when it is expected to be fully implemented. The Scottish Government should ensure that the essential human resources and financial planning systems are implemented effectively, to time and to budget, and include plans to ensure their successful delivery for each of its clients.

Information and Communications Technology

108. As part of our 2021/22 audit, we carried out a review of the Scottish Government's Information and Communication Technology environment (ICT). Our work included meetings with the Scottish Government's Information and Technology Services (iTECS) Division and reviewing key documents covering areas such as service delivery and information technology controls. We noted the following:

- **Cyber Security Awareness.** The Scottish Government is both Cyber Essentials Plus accredited and Public Services Network certified. iTECS comply with the Scottish Government Cyber Resilience Framework and has been assessing their security processes against the National Institute of Technology Cyber Security Framework. iTECS plan to agree their future cyber assessment framework by the end of 2022.

- **Business Continuity Management.** iTECS business continuity plans were last updated in July 2020 and are scheduled to be reviewed and updated in early 2023. The Scottish Government has been in formal business continuity mode since March 2020 due to the Covid-19 pandemic. In addition, there are processes in place to test and recover staff data on a regular basis as part of business as usual. Historically, a process was in place where iTECS would test key systems' recovery on an annual basis. However, this process has not been undertaken since Covid-19 arrangements were introduced in 2020.

- **Governance Arrangements.** An Information Systems Investment Board was previously responsible for the governance of iTECS investment spend. This Board was disbanded in 2021 with plans to create a new Board. It is our understanding that a new board is still to be set up, although we acknowledge that scrutiny is undertaken at present by the Digital Director. We noted that a change request process is in place; however, iTECS confirmed that it requires to be updated and formalised to ensure that a standard approach is used across Scottish Government core Divisions.

- **Managing Cloud Platforms:** iTECS have developed cloud evaluation guidance for those areas of the Scottish Government considering adopting cloud technology platforms. Adherence to these guidelines ensures that users are aware of best practice in choosing suppliers and have taken risk-based decisions on where their data is held and how their data is processed. iTECS advised that the guidance is not always adhered to, resulting in Directorates approaching iTECS too late in the process, with service owners assuming iTECS can provide support without any prior consultation.

Recommendation 9

Business continuity plans should be updated to highlight new processes due to hybrid working and routinely tested to ensure their effectiveness in the event of an incident. In addition, the Scottish Government should routinely test and restore key systems' recovery to ensure that data can be recovered should systems be interrupted.

5. Value for money

Using resources effectively and continually improving services

Main judgements

Performance reporting within the Scottish Government could be improved. The absence of defined, measurable performance targets means it is difficult to assess whether the Scottish Government is delivering its intended aims in support of national outcomes. This is vital in supporting the long-term decision making required for essential public sector reform.

The Performance Report within the Consolidated Accounts could be further improved

109. The 2021/22 Consolidated Accounts include a performance report and an accountability report in line with the basic requirements of the Government Financial Reporting Manual (FReM).

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

111. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of a body's performance, and is essential in helping stakeholders understand the financial statements. The performance report is therefore an opportunity for the organisation to 'tell its story' and enhance openness and transparency.

112. We concluded that the Scottish government's performance report met the requirements of the FReM but we noted last year that the information provided required to be refined further to ensure greater accessibility and transparency to the reader. Some limited improvements have been made in 2021/22, but it remains difficult to form an overall picture of the performance of the Scottish Government from the various strands of information presented. In the absence of defined, measurable targets, it is difficult for the reader to assess whether the Scottish Government is delivering its intended aims in support of national outcomes.

113. The performance report needs to reflect clear targets and progress towards achieving them. An assessment should also be made of the achievement towards priority outcomes and strategic objectives. This should help demonstrate the Scottish Government's own contribution to the delivery of national outcomes outlined in the National Performance Framework which is for all of Scotland, not just the Government. Key performance indicators should be identified together with performance during the year to give the public a clear understanding of the Government's achievements in the year. The lack of good indicators and milestones make monitoring the impact of policy and spending decisions more difficult. It also makes it harder for Parliament and the public to scrutinise the Government's performance and assess whether spending is achieving maximum value.

114. The Scottish Government acknowledges that there is further room for improvement in the transparency of the reporting and the links between performance analysis and financial performance in the portfolio outturn statements. Further changes will enhance reporting to the Scottish Parliament and the public and help strengthen accountability and scrutiny.

115. At the June 2021 meeting of the Corporate Board, a significant review of the Corporate balanced scorecard was agreed. The Scottish Government has recognised that the current systems of performance reporting across all policy areas lacked integration and there was a disconnect between reporting on targets, key deliverables, spending, and contribution to outcomes.

116. An important element of the new process is the definition and agreement of a clear set of cross-government priorities which the Government wants to see progress on and will form the core around which the system to track delivery and performance will be designed. The aim is to develop an integrated approach to overseeing progress towards cross-government priorities, which should lead to the delivery of the National Performance Framework's outcomes.

Recommendation 10

The Scottish Government should ensure greater accessibility and transparency of its performance reporting within the Consolidated Accounts. The performance report needs to reflect clear targets and progress towards achieving them. An assessment should also be made of the achievement towards priority outcomes and strategic objectives. This will help strengthen accountability and scrutiny of the Scottish Government's own performance.

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. **Strategic approach to financial interventions** In March 2022, the Scottish Government published its Business Investment Framework to outline its principles and approach for decisions about future investment in private companies. While this is welcomed, there is scope to further develop the framework. There continues to be a risk that the Scottish Government provides financial support to private companies without understanding their overall financial capacity, risk tolerance or expected outcomes, potentially increasing the risk of poor decision making.	The Scottish Government should further develop the framework for investment in private companies by, for example, strengthening financial control over interventions and expanding commercial outcomes. The framework should also make a direct link between risk tolerance and risk appetite for investment while considering the financial capacity of the Scottish Government. Paragraphs 57-60	Since publishing the Business Investment Framework, Scottish Government has continued to strengthen governance and increase access to both internal and external expertise around investments. The Scottish Government will engage directly with Audit Scotland around further measures to enhance the approach to interventions and develop a detailed action plan by Spring 2023 to address the specific recommendations highlighted, and ensure Parliament is updated on progress. Head of Rapid Response Unit Business Response and Insight Unit Spring 2023
2. **Capital and resource borrowing** The Scottish Government has utilised borrowing in 2021/22 to support its overall capital programme although no detail of the assets being purchased through the loan is	In order to support better parliamentary scrutiny of its capital investment programme, the Scottish Government should increase transparency over its capital borrowing plans. Paragraph 73	As responded previously, it is not accepted that Scottish Government capital borrowing should be applied to specific projects: the borrowing supports the whole capital portfolio. The borrowing policy is set out in the Medium Term Financial

Issue/risk	Recommendation	Agreed management action/timing
provided within the Consolidated Accounts. There is a risk that transparency is reduced around these key investment decisions.		Strategies and annual Budget documents. Information on capital borrowing plans (and the related borrowing costs) is provided in Budget documents. Detailed information on borrowing to date and borrowing plans is provided in, for example, Fiscal Framework Outturn reporting: Fiscal framework outturn report: 2022 - gov.scot (www.gov.scot) Information on key investment decisions is provided in the annual Budgets and the longer-term Infrastructure Investment Plan and related reporting. Infrastructure investment - Government finance - gov.scot (www.gov.scot)
3. Financial sustainability The financial pressures facing the Scottish Government continue to intensify as tougher economic conditions have emerged in recent months. Some shorter-term approaches may not be sustainable in the longer term. There is a risk to the future financial sustainability of the Scottish Government and the wider public sector without a focus on longer-term planning which takes cognisance of difficult policy decisions and their costings.	The Scottish Government should continue to strengthen its focus on longer-term financial sustainability. In doing so, it should ensure its policy choices and spending commitments are fully costed and transparently reported, particularly where there are funding implications for the wider public sector. Paragraphs 78-84	A programme of work is in place to strengthen the sustainability of the public finances and implementation is underway. Director of Fiscal Sustainability and Exchequer Development December 2023

Issue/risk	Recommendation	Agreed management action/timing
4. Scotland Reserve While there is some publicly available information about the Scottish Government's approach to the Scotland Reserve, the Reserve balance is not disclosed separately within the Scottish Government Consolidated Accounts. There is an opportunity for the Scottish Government to increase transparency and raise awareness about the balances held within the Scotland Reserve and the movements of funds into, and out of, the Reserve each year. There is a risk that this lack of clarity leads to misunderstanding about the purpose and linkage to the Scottish Government's spending plans.	The Scottish Government should increase transparency with the consolidated accounts about the balances held within the Scotland Reserve and the movements of funds within it. This will provide Parliament and the public with a better understanding of the Reserve's purpose, its application in supporting spending plans and its limitations. Paragraphs 85-88	The Scotland Reserve balance is not within the Consolidated Accounts. There is coverage of it in the reporting on the financial position, including the position as reported at Provisional Outturn in June. There will be a Final Outturn report to Parliament in due course once all relevant bodies have completed their 2021-22 Accounts. The Fiscal Framework reports and Budget documents set out planned use of the Reserve to support spending plans. The Scottish Government is happy to engage with Audit Scotland on what may be possible for the 2022-23 Annual Accounts. Head of Corporate Reporting During audit planning – March 2023
5. Public sector accounts The Scottish Government has committed to the development of a devolved public sector account on a two-stage basis. There is a risk that decision making over the longer term will be negatively impacted without a comprehensive and transparent assessment of the state of Scotland's public finances.	The Scottish Government should fulfil its commitments to producing public sector consolidated accounts as soon as possible. Paragraphs 89-93	The audit reporting recognises the work that was done on the 1st stage output and shared with Audit Scotland in April 2022. The completion of the annual accounts and audit had to be prioritised but the Scottish Government is now picking this up again. The Scottish Administration and Scottish Budget level output will be the first focus. The delays and ICT issues affecting UK WGA impact our plans. This means we may have to re-evaluate our approach and timeline which we will discuss with Audit Scotland.

Issue/risk	Recommendation	Agreed management action/timing
		Head of Corporate Reporting Consideration underway, to develop a proposal early in 2023
6. Workforce strategy There continued to be considerable strain placed on staffing capacity and wellbeing. This is likely to intensify in the years ahead given the Scottish Government's intention to limit the size of the public sector workforce to pre-Covid levels by 2026/27. There is a risk that the Scottish Government and its partners will not meet their performance ambitions due to a shortage of the right people in the right place with the right skills at the right time.	The Scottish Government should develop a comprehensive workforce strategy to ensure that its approach to staffing levels is appropriately planned and coordinated across the organisation. Paragraph 95	Workforce numbers are regularly reviewed to ensure affordability, and to ensure that the organisation is delivering for the people of Scotland as efficiently and effectively as possible. Enhanced recruitment controls have been put in place in support of this already in financial year 2022/23. Action is planned to further develop our workforce planning capability. These actions will be part of a wider People Strategy that addresses changes to our HR policies and processes to achieve the aims of the Corporate Transformation programme and meet wider organisational needs. Head of People Strategy March 2023
7. Governance arrangements Many of the main governance groups are attended by the same individuals (both executive and non-executive) and cover similar topics, themes and risks. There is a risk of duplication, inefficiency or blurred lines of responsibility between the different roles and remits of each group.	A review of governance arrangements should be undertaken to consider risks of duplication, inefficiency, or unclear lines of responsibility within its governance structure. Paragraph 98	We keep our governance arrangements under regular review. Further action is already planned to consider relevant risks and in particular attendance and membership across the governance landscape. Board Secretary March 2023

Issue/risk	Recommendation	Agreed management action/timing
8. Corporate transformation Corporate transformation is an urgent priority for the Scottish Government in order to achieve greater efficiencies in the longer term. There is uncertainty over available funding to deliver the whole programme and no committed timeline for the project. There is a risk that corporate transformation will not deliver fully on its stated aims within planned timescales and within cost estimates.	The Scottish Government should provide clarity over how the corporate transformation project will be funded and when it is expected to be fully implemented. The Scottish Government should ensure that the essential human resources and financial planning systems are implemented effectively, to time and to budget, and include plans to ensure their successful delivery for each of its clients. Paragraphs 103-107	The Scottish Government continues to drive the implementation of the Shared Services Programme to upgrade the human resources and financial systems, with plans in hand to strengthen the management of the programme's budget and delivery plans including confirmation of go-live dates for the new systems. As the flagship programme of Corporate Transformation, this will be the focus of efforts to drive efficiencies supported by a number of other initiatives in Digital and People Directorates in line with available budgets. As Corporate Transformation is not a formal programme (with a fixed scope), it would not be anticipated that the agenda would have a timeline of deliverables. New initiatives that deliver improved corporate / operational performance will be added as budget allows. Each initiative will have its own goals, scope, timeline etc. Director of Corporate Transformation Ongoing
9. Information and Communications Technology Business continuity plans have not been updated since 2020. Similarly, routine testing of systems' recovery has not taken place since	Business continuity plans should be updated to highlight new processes due to hybrid working and routinely tested to ensure their effectiveness in the event of an incident. In addition, the Scottish	A dedicated iTECS Business Continuity Manager was recruited in November 2022 and will take forward this review of iTECS BCP plans to reflect changes in technology and services since March 2020. In

Issue/risk	Recommendation	Agreed management action/timing
before the start of the Covid-19 pandemic in 2020. There is a risk that systems and data could not be readily recovered in the event of an incident such as a cyber-attack.	Government should routinely test and restore key systems' recovery to ensure that data can be recovered should systems be interrupted. Paragraph 108	addition, a robust testing plan will be put in place and initiated in 2023. Head of Service Improvement, iTECS Full review and update of iTECS Business Continuity plans by June 2023. A timetable for a system testing plan created March 2023.
10. Performance reporting Some limited improvements have been made in 2021/22, but it remains difficult to form an overall picture of the performance of the Scottish Government from the various strands of information presented in the performance report. In the absence of defined, measurable targets, it is difficult for the reader to assess whether the Scottish Government is delivering its intended aims in support of national outcomes. There is a risk that users of the accounts are unable to gain a clear understanding of Scottish Government performance.	In order to strengthen accountability and scrutiny, the Scottish Government should review the performance report to ensure it reflects clear targets and progress towards achieving them. An assessment should also be made of the achievement towards priority outcomes and strategic objectives. Paragraphs 112-116	We continue to review our performance reporting procedures and we will consider this recommendation as part of that exercise. In parallel, the Scottish Government is preparing for the next statutory review of the National Outcomes, set to start its public engagement in the coming months and conclude during Term 3 of Parliament (2023). The outcome of this work will inform our future strategic direction. Director, Performance, Delivery and Resilience August 2023

Follow-up of prior year recommendations

#	Issue/risk	Recommendation	Update
1.	**Preparation of financial statements** The unaudited Consolidated Accounts were received on 30 September 2021 but there were a number of incomplete	The Scottish Government should review their internal processes for the provision of a complete set of	The core schedules were presented for audit as per the agreed timetable. There were no

#	Issue/risk	Recommendation	Update
	sections. An updated version was received 6 weeks later but there remained some outstanding areas which were not finalised until December 2021. There is a risk that the audit is not completed in line with the statutory timetable and that the financial statements are qualified due to an absence of appropriate working papers.	unaudited accounts for audit review and responding to audit queries to ensure the audit can be completed timeously.	unexpected or significant omissions. The unaudited consolidated accounts were presented for audit in line with the agreed timetable. There were no unexpected or significant omissions. Matter closed
2.	**Student loans** We identified a significant number of discrepancies between working papers, disclosures in the accounts and the financial ledger during our audit of student loans. There was a lack of clarity on specific responsibilities over accounting for student loans between the Scottish Government and SAAS. There is a risk that the accounting and disclosures are not in accordance with agreed procedures resulting in a material misstatement in the financial statements.	The process for accounting for student loans should be reviewed to clarify respective responsibilities, minimise the level of errors and increase overall understanding of this complex area.	We are pleased to record the improvement in the working papers and engagement with the audit team during our 2021/22 audit. Matter closed
3.	**Covid-19 grants: assessment of fraud and error** There was no robust estimate of the level of fraud and error related to the business support grants provided in advance to audit. Evidence to support assessments of fraud and error was only provided in late November/early December 2021. There is a risk that the financial statements will be qualified if there is no regular, robust monitoring, review and reporting of the assessment of	Looking ahead, the Scottish Government should regularly assess and improve its estimates of fraud and error in Covid-19 grant related schemes. In doing so, the Scottish Government should consider direct testing of a sample of payments to assure themselves that estimates are robust and that controls to detect and prevent fraud and error are working in practice. They should also ensure regular	The Scottish Government estimates this to be no more than one to two per cent of payments, similar to its estimate in 2020/21. Review of fraud levels at local government level has been informed through engagement with local internal auditors and other delivery partners. We are content that the estimate is not unreasonable. We are pleased to note the Scottish Government

#	Issue/risk	Recommendation	Update
	the level of fraud and error incurred.	public reporting to satisfy high levels of public interest in this area.	being more proactive in its assessment of fraud and error and their disclosures within the Consolidated Accounts. Matter closed
4.	**Public reporting**		
	Scottish Government analysis indicated that around £8.8 billion was spent on Covid-19 during the year. High-level details are provided in the Scottish Government's accounts over how this money was spent. There is a risk that there is an insufficient level of publicly available information on how Covid-19 funding was spent, reducing transparency in an area of high public interest.	The Scottish Government should be proactive in publishing comprehensive Covid-19 financial reporting information which clearly links budgets, funding announcements and spending levels. This will increase transparency in the Government's financial reporting in an area of significant parliamentary and public interest.	Ongoing. The recovery from Covid-19 will continue for some years to come so transparency over how funding was spent remains important.
5.	**Public sector accounts**		
	The Scottish Government has committed to the development of a devolved public sector account on a two-stage basis beginning with production of an account at the Scottish Administration level. The second stage which will incorporate NDPBs, other public bodies and local authorities will require more in-depth analysis and review. There is a risk that decision making over the longer term will be negatively impacted without a comprehensive and transparent assessment of the state of Scotland's public finances.	The Scottish Government should commit to its revised timetable over the production of public consolidated accounts. Public sector accounts will be important to help identify the potential risks to financial sustainability including the scale of assets and liabilities held by the devolved public sector in Scotland.	Ongoing Refer to action plan point 5 above
6.	**Governance**		
	There were several changes to the Scottish Government's	The Scottish Government should continue to review its	Ongoing

#	Issue/risk	Recommendation	Update
	Corporate Board with two new Director Generals, two new Directors, a new Chief Financial Officer and a new Permanent Secretary joining. Three of the four Non-Executive Directors currently serving on the Corporate Board will reach the end of their term during 2022. There is a risk that this loss of knowledge and experience impacts adversely on the effectiveness of leadership within the Scottish Government.	governance arrangements to ensure they remain fit for purpose, particularly as changes are made to its leadership. The use of interim appointments should be limited where possible to ensure greater stability and certainty within its leadership group.	Refer to action plan point 7 above
7.	**Performance reporting**		
	The performance report requires to be further refined to ensure greater accessibility and transparency to the reader. It is difficult to form an overall picture of the performance of the Scottish Government or assess whether the national outcomes are being achieved. It is challenging to link the performance information with the financial statements. There is a risk that users of the accounts are unable to gain a clear understanding of Scottish Government performance.	The Scottish Government should ensure greater accessibility and transparency of its performance reporting within the Consolidated Accounts, including better links between spending in portfolios and performance towards achieving national outcomes. This will help strengthen accountability and scrutiny of the Scottish Government's own performance. Further enhancements could be made by introducing relevant diagrams and tables in the Performance Report.	Ongoing Refer to action plan point 10 above

Appendix 2. Wider dimension audit risks

The table below sets out the wider dimension audit risks we identified during the 2021/22 audit and summarises the audit procedures during the year to obtain assurances over these risks and the conclusions from the work completed.

Audit risk	Assurance procedure	Results and conclusions
Scottish public sector accounts The Scottish Government has committed to the development of a devolved public sector account on a two-stage basis beginning with production of an account at the Scottish Administration level. The second stage which will incorporate NDPBs, other public bodies and local authorities will require more in-depth analysis and review. There is a risk that decision making over the longer term will be negatively impacted without a comprehensive and transparent assessment of the state of Scotland's public finances.	Engagement with Scottish Government officers to discuss progress. Review of the accounts (stages one and two) as they are provided to audit.	We reviewed draft stage 1 accounts and provided comments. Work has stalled due to HM Treasury IT issues and general progress remains slow.
Financial intervention in private companies The Scottish Government has developed a framework for interventions in private companies. The framework will be issued as an update to the Scottish Public Finance Manual (SPFM) in Spring 2022. There continues to be a risk that the Scottish Government provides financial support to private companies without	Review of updates to the SPFM. Review any significant financial assistance offered to private companies in 2021/22. Review developments in the current arrangements in relation to assistance provided to private companies.	Reviewed the latest position with regards to the administration of BiFab and the sale of Prestwick Airport. Reviewed the latest position with regards to the Lochaber Smelter guarantee. Confirmed with Scottish Government officers whether there was any

Audit risk	Assurance procedure	Results and conclusions
understanding their overall financial capacity, risk tolerance or expected outcomes, potentially increasing the risk of poor decision making.		new financial assistance offered to private companies in 2021/22. Reviewed the update to the SPFM.
Transparency in reporting		
The performance report requires to be further refined to ensure greater accessibility and transparency to the reader. The Scottish Government accepted and recognised that further improvements could be made. We also noted in 2020/21 that only high-level details were provided on how Covid-19 funding was spent which reduced transparency in an area of high public interest. There is a risk that transparency in reporting is not provided in respect of both Covid-19 expenditure and Scottish Government performance against targets.	Discussions with relevant Scottish Government officers over their performance reporting including Covid-19 expenditure.	Met with Scottish Government officials to discuss the proposed approach to the performance report. Reviewed the draft performance report and provided comments for consideration. Covid-19 reporting continued to be limited to high level details. Issues around transparency of reporting continue to be highlighted.

Source: Audit Scotland

Appendix 3. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 1. We are satisfied that these errors do not have a material impact on the financial statements.

Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
	Dr £000	Cr £000	Dr £000	Cr £000
NHS unadjusted errors	3,607	13,876	28,532	18,263
Other consolidated bodies unadjusted errors	3,005	10,759	19,959	12,205
SG core unadjusted errors				
Foreign exchange error in ESF provision	1,854			1,854
Extrapolation error in ESF provision		7,324	7,324	
Assets Under Development overstated	791			791
Forestry accrual understated	3,915			3,915
NHS accrual overstated		880	880	
NHS consolidation adjustments not removed			991	991
Unexplained variance in Jessica Fund			2,670	2,670

Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
Net Impact	**13,172**	**32,839**	**60,356**	**40,689**

Scottish Government

2021/22 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

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

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