

# Scottish Government

2016/17 Annual Audit Report



 AUDIT SCOTLAND

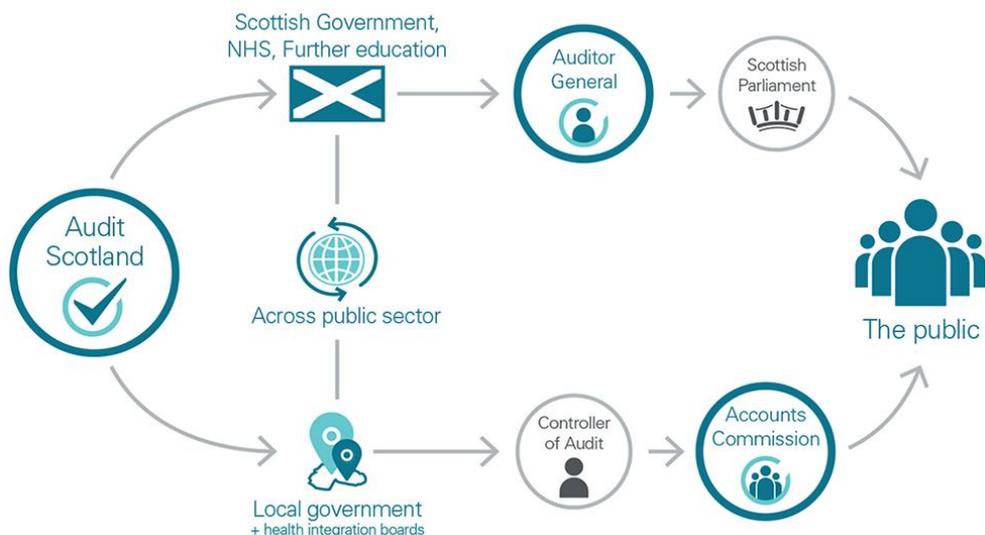
Prepared for the Scottish Government and the Auditor General for Scotland

September 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

# Contents

Introduction	5
Part 1	7
Audit of 2016/17 financial statements	
Part 2	13
Financial management	
Part 3	17
Financial sustainability	
Part 4	22
Governance and transparency	
Part 5	27
Value for money	
Appendix 1	31
Action plan 2016/17	
Appendix 2	35
Significant audit risks identified during planning	
Appendix 3	41
Summary of unadjusted misstatements	
Appendix 4	43
Summary of national performance reports 2016/17	

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# Key messages

## Audit of the 2016/17 financial statements

- 1 The financial statements of the Scottish Government give a true and fair view of the financial position and its net expenditure.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
- 3 The other information in the annual report and accounts was consistent with the financial statements and prepared in accordance with legal requirements.

## Financial management

- 4 We concluded that the Scottish Government had effective overall management of the 2016/17 budget.
- 5 Systems of internal control operated effectively in 2016/17 with a small number of weaknesses identified from our work.

## Financial sustainability

- 6 We concluded that the Scottish Government has adequate financial planning arrangements in place.
- 7 Medium to long term financial planning is of increasing importance given the new financial powers and is currently in development.

## Governance and transparency

- 8 The Scottish Government has introduced new governance arrangements during the year and these remain in development. It is too early to comment on their effectiveness.

## Value for money

- 9 Further developments in relation to performance management and monitoring are required by the Scottish Government to better demonstrate their own performance and contribution to outcomes over the medium term.

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# Introduction

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1. This report is a summary of our findings arising from the 2016/17 audit of the Scottish Government.

2. The scope of our audit was set out in our [Annual Audit Plan](#) presented to the March 2017 meeting of the Scottish Government's Assurance and Audit Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the wider dimensions set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 were:

- an interim audit of the Scottish Government's main financial systems
- an audit of the Scottish Government's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our audit opinions.

4. The Scottish Government is responsible for preparing financial statements that give a true and fair view, the accuracy of other information in the annual report and accounts, and establishing effective arrangements for governance, propriety and regularity that enable the Executive Board to successfully deliver its objectives.

- 5.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance and, guided by the auditing profession's ethical guidance.
- 6.** These responsibilities include giving independent opinions on the financial statements, regularity, the remuneration and staff report, the performance report and the governance statement. We also review and report on the arrangements within the Scottish Government to manage its performance, regularity and use of resources. In doing so, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
- 8.** The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1 \(page 31\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 9.** Communication of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both the Executive Board and the Auditor General for Scotland and will be made available on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2016/17 financial statements



### Main judgements

**Our audit opinions are all unqualified. These covered the financial statements, regularity of transactions, remuneration and staff report, performance report and governance statement.**

#### Unqualified audit opinions

13. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity of expenditure and income; and
- an unqualified audit opinion on the remuneration and staff report, performance report and governance statement.

14. Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception. In line with recent years, the Auditor General will present a separate, statutory report on the 2016/17 Scottish Government audit to the Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

#### Submission of annual report and accounts for audit

15. We received the unaudited core schedules on 8 June 2017 and the first version of the unaudited consolidated accounts on 28 July 2017 in line with our agreed audit timetable.

16. Further presentational changes were made this year to the accounts as part of the Scottish Government's developing financial reporting programme. The revised presentation improved the accounts. For example, changes made to the portfolio outturn statements should help the readers' understanding of portfolios' financial performance and information on NHS non-current assets is reported separately for the first time.

17. A complete Governance Statement was received separately on 25 August 2017 as a result of the internal process and timetable for its preparation and approval. We understand preparing the Governance Statement presents challenges in obtaining the necessary assurances from across the Scottish Government. The Governance Statement is a key component of the Government's consolidated accounts. There is a risk that there is insufficient time for audit to review, and form an independent opinion, on the Governance Statement in line with the Government's own timetable for finalising its annual report and accounts. The timetable should be revised next year to ensure a complete Governance Statement is submitted as part of the unaudited accounts.

**18.** Scottish Government finance encountered challenges in preparing the Consolidated Statement of Cash Flows due to inconsistencies between audited consolidation packs and audited cash flow data. The Scottish Government has plans in place to review its processes for the preparation of this statement in 2017/18.

**19.** The working papers provided in support of the accounts were of a satisfactory standard. The Scottish Government staff provided good support to the audit team and we substantially completed our audit on 1 September 2017.

## Whole of Government Accounts

**20.** The draft Whole of Government Accounts (WGA) pack was provided to audit in August in accordance with the audit timetable. In accordance with the WGA guidance we plan to complete the required assurance statement and submit it to the National Audit Office (NAO) by the 30 September 2017 deadline.

## Risk of material misstatement

**21.** [Appendix 2 \(page 35\)](#) provides a description of the risks of material misstatement that were identified and assessed during the planning process. These risks had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

## Materiality

**22.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**23.** Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**24.** On receipt of the annual report and accounts we reviewed our original materiality calculations and concluded that they remained appropriate.

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## Exhibit 2

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at one per cent of total outturn for the year ended 31 March 2017.	£338 million
<b>Performance materiality</b> – 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 20 per cent of overall materiality.	£68 million

Given the specific nature of the Scottish Government audit and the lower materiality levels in respect of individual errors identified, we apply judgement and consider the nature and circumstances of each error identified. Therefore, in practice, we work to much lower materiality levels and any individual error in the range £10 million to £20

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Materiality level	Amount
million and above may be material depending on its nature and impact.	
<b>Reporting threshold</b> – 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 £0.1 million.	£0.1 million
Source: Audit Scotland	

## Evaluation of misstatements

**25.** A number of presentational and monetary misstatements were identified during the audit. These were discussed with senior finance officials who agreed to make the necessary adjustments.

**26.** Gross monetary misstatements for the Scottish Government core, in excess of the 'reporting threshold' amount (£0.1 million) totalled £95.71 million. The significant adjustments that make up this balance are:

- £48 million adjustment for the incorrect discount rate being applied to the student loans model. A rate of 0.7 per cent should have been applied and not 2.2 per cent (Exhibit 3, point 4). This decreased net assets.
- £14 million relating to the payment of the European Structural Funds self-correction provision due. The self-correction payment was incorrectly accounted for under 'provisions not required written back' instead of 'provisions utilised in year'. No impact on net assets.
- £15 million relating to a mis-posting in the cash advances figures of the Financial Assets note. The mis-posting arose due to use of an incorrect account code. No impact on net assets.
- £7m reclassification of financial assets revaluation to outturn to fair value adjustments. No impact on net assets.

**27.** These were corrected and the overall effect was to increase comprehensive net expenditure by £53.25 million and decrease net assets by the same amount. All adjusted misstatements for NHS boards and executive agencies are reported in the annual audit reports of these bodies.

**28.** We are required to report to those charged with governance all unadjusted misstatements which we identified during the course of our audit, other than those of an insignificant small amount. The total of unadjusted misstatements identified during the audit was £23.08 million (gross). Of which:

- £3.33 million related to the Scottish Government core financial statements and
- £19.75 million related to the NHS boards.

**29.** If these adjustments were made, the potential net impact would be to reduce total comprehensive net expenditure in the Scottish Government consolidated accounts by £7.5 million and increase net assets by £7.5 million. There were no unadjusted misstatements in excess of £0.1 million for the executive agencies.

**30.** The total value of adjustments exceeds our performance materiality level of £68 million and we have considered the implications of this for our audit. The largest adjustment of £48 million was due to the incorrect discount rate being applied to the student loans model. In our judgement as the student loan

adjustment was 40 per cent of the total adjustments there was no overall impact on our audit approach.

**31.** [Appendix 3 \(page 41\)](#) details the unadjusted misstatements for the Scottish Government core and their expected impact on the consolidated accounts. The individual unadjusted misstatements for NHS boards and executive agencies can be found in their respective annual audit reports.

## Significant findings from the audit

**32.** International Standard on Auditing (UK and Ireland) 260 requires us to report significant findings from the audit. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 31\)](#) has been included.

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## Exhibit 3

### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. European Structural Funds (ESF)</b></p> <p>The Scottish Government's closure work on the 2007-13 programmes identified that the Scottish Government had overpaid project sponsors approximately £16 million as a result of internal audit findings. As a result, subsequent penalties were applied to the project sponsors. As at 31 March 2017, the Scottish Government had identified this debt but had not made a decision whether it should be recovered.</p> <p>No disclosures were made in the unaudited accounts about this activity. If the Scottish Government does not pursue this debt, there is a risk that the European Commission takes a view that this money is out-with their approved state aid schemes and applies state aid penalties which could be an additional cost to the Scottish Government.</p>	<p>The Scottish Government has started to raise invoices for this debt. The recovery still remains uncertain as amounts may be subject to appeal.</p> <p>Since there is uncertainty about the full recovery of this debt, we recommended that the Scottish Government recognise it as a contingent asset. The Scottish Government amended the Consolidated Accounts to include a contingent asset but it does not quantify an amount.</p> <p><a href="#">Action Plan point 2 (Appendix 1)</a></p>
<p><b>2. Common Agricultural Policy (CAP) Futures</b></p> <p>The Scottish Government commissioned an independent technical assurance review in December 2016 to help assess the capability and stability of parts of the Future rural payments system.</p> <p>In the Consolidated Statement of Financial Position, an amount of £124 million was capitalised as an intangible asset for CAP Futures with no impairment of the asset.</p> <p>The technical assurance review was used to inform an impairment review of the system. The Scottish Government is working with the review's authors and CGI (the main supplier of software) to develop an action plan and to determine the value of investment needed to address the issues</p>	<p>We have accepted the review's conclusion that no impairment is required on the basis that the Scottish Government plan to do another review in 2017/18 taking into consideration the remedial actions as a result of the technical assurance review. The implications for the future of the system as a result of the UK leaving the European Union may be clearer at this time.</p>

Issue	Resolution
<p>highlighted in the report.</p> <p>The lack of system documentation makes it difficult to judge how the system should be working and what the system could offer until this system documentation exercise is completed in 2017/18.</p>	
<p><b>3. Common Agricultural Policy (CAP) contingent liability disclosures</b></p> <p>The draft consolidated accounts issued for audit did not include any contingent liability disclosures relating to the Common Agricultural Policy programme.</p> <p>We are aware through Scottish Government reports to the Scottish Parliament that the Government missed an extended payment deadline for the 2015 payments. The exact amount of Scotland's share is still to be negotiated and agreed with the UK Government and therefore is too uncertain to quantify in the 2016/17 Consolidated Accounts.</p> <p>We are also aware that the Scottish Government is awaiting correspondence from the European Union in relation to a number of audits: Voluntary Coupled Support Beef 2016, Desk audit of National Reserve, Rural Development Land based measures and the accreditation findings from the external auditors findings reported to Europe. It is unclear if these audit reports will result in potential disallowances.</p>	<p>The revised Scottish Consolidated accounts include a contingent liability covering both the penalty in relation to the missed extended deadline and potential disallowances following European Commission audits that are still to be negotiated and agreed.</p>
<p><b>4. Student loans</b></p> <p>We queried the rate used in the cost of capital calculation for student loans which assesses the future value of loans at current price levels. The calculations are informed by a model which holds data on demographic and behavioural characteristics of students to predict borrowing behaviour and estimate the likely repayments of loans.</p> <p>The Scottish Government confirmed that it should have used the HM Treasury discount rate of 0.7 per cent instead of 2.2 per cent.</p>	<p>We reviewed and confirmed the correct rate to apply was 0.7 per cent. We also reviewed the accounting adjustments made by the Scottish Government which decreased investments by £48 million. This was met from the Annual Managed Expenditure (AME) budget and therefore did not impact on the spending power in other areas of the Scottish budget.</p>
<p><b>5. Gender analysis</b></p> <p>The FReM requires an analysis of the number of persons of each sex who were directors, senior civil servants and employees to be reported. This analysis is not reported in the consolidated accounts because this information was not captured by the consolidation packs submitted by consolidated bodies.</p>	<p>This disclosure is not within the auditable part of the remuneration and staff report.</p> <p>The Scottish Government will review the arrangements in place to collect the gender analysis data in 2017/18.</p> <p><a href="#">Action Plan point 3 (Appendix 1)</a></p>

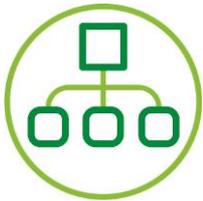
Issue	Resolution
<p><b>6. Transport Scotland – valuation of road network</b></p> <p>The valuation of the trunk road network is based on interim valuation data contained within the roads asset valuation system (RAVS). Once the final valuation data is available there is a need to adjust the financial statements of Transport Scotland to reflect the movement between the interim and final data sets. In 2016/17 the impact of the movement was a £144.7 million increase in the net book value of the trunk road network. This included an increase of £158.6 million in revaluations netted off against a reduction of £9.8 million in detrunkings and £4.1 million of historic adjustments.</p>	<p>Transport Scotland’s audited 2016/17 financial statements have been adjusted to reflect the final valuation which is therefore also reflected in the Scottish Government consolidated accounts.</p>
<p>Source: Audit Scotland</p>	

## Other findings

**33.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.

# Part 2

## Financial management



### Main judgements

The Scottish Government managed the overall budget for 2016/17 effectively.

Systems of internal control operated effectively in 2016/17 with a small number of weaknesses identified from our work.

There was good engagement with the National Fraud Initiative exercise at this early stage but improvements to the approach can be made.

### Financial performance in 2016/17

34. The main financial objective for the Scottish Government is to ensure that the financial outturn for the year is within the budget authorised by the Scottish Parliament.

35. The Scottish Government reported an outturn of £33,870 million, therefore remaining within its overall budget for 2016/17 with an underspend of £85 million. The financial performance against budgets is shown in [Exhibit 4](#).

### Exhibit 4

Performance against budgets in 2016/17

Performance	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource	31,890	31,862	(28)
Capital	2,065	2,008	(57)
Total	33,955	33,870	(85)

Source: Scottish Government Consolidated Accounts and Budget Documents

36. The Scottish Budget consists of the Scottish Block Grant determined within the framework of public expenditure control in the United Kingdom and other sources of income, mainly Non-Domestic Rates, funding connected with European programmes of financial assistance and receipts from the devolved taxes. The Block Grant is calculated using the Barnett formula which adjusts the grant on the basis of a population share of changes in comparable programmes of expenditure in the rest of the UK. This is then adjusted for the devolved taxes and forecast

amounts from the Scottish Rate of Income Tax. The UK Parliament votes the necessary provision to the Secretary of State for Scotland who makes grants to the Scottish Government into the Scottish Consolidated Fund.

**37.** The Scottish Parliament approves the resources to be used by all bodies whose expenditure is payable out of the Scottish Consolidated Fund by passing the annual Budget Act. The majority of the Scottish Budget relates to spending programmes and administration costs covered by the Scottish Government consolidated accounts, but amounts are also allocated to other parts of the Scottish Administration and directly-funded bodies.

**38.** The Scottish Government is required to manage overall spending within both the Scottish Budget and UK Treasury limits. The consolidated accounts reflect the areas that it is directly responsible and accountable for. They include spending against the relevant components of the Scottish Budget. Separate accounts are prepared by other bodies to reflect their own accountability to Parliament.

**39.** Budget management during 2016/17 was effective in managing overall spending against the Scottish Budget. The Scottish Government operated within its budget, resulting in an overall underspend of £85 million (0.25 per cent of final budget) – resource by £28 million and capital by £57 million.

**40.** High-level information on variances in each portfolio is shown in the accounts. This, for example, shows that Health and Sport overspent by £112 million which was largely the result of a change in discount rate used to assess legal claims against NHS boards creating additional non-cash costs. The largest portfolio underspend (£62 million) was in Communities, Social Securities and Equalities. The underspend primarily related to capital spending in housing. Higher than expected levels of capital receipts (£43 million compared to a forecast of £10 million) were received which was offset against spending. In addition, spending on the Infrastructure Loan Fund established in 2016/17 was lower than planned as it relies upon sites becoming available from councils and private developers.

## Internal controls

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

**42.** Our findings were included in an interim audit report presented to the Scottish Government Assurance and Audit Committee on 22 June 2017. We concluded that the controls were operating effectively. No significant internal control weaknesses were identified during the audit which could affect the Scottish Government's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

**43.** We identified an overpayment from our earlier work on staff leavers and we reported the risk in our interim report. We undertook further audit work on the payroll system to ensure our sample testing covered the full financial year. As part of this work we found that one of the leavers tested received an overpayment of £986.80. This demonstrates weaknesses both in the notification of leavers to payroll and also in the identification of overpayments. Our full year's sample therefore contained two overpayments out of a sample of 32. Good practice is for the line manager to notify payroll of a leaver once resignation is received rather than after the leaving date, to prevent an overpayment. This recommendation was included in our interim report presented to the Scottish Government Assurance and Audit Committee on 22 June 2017.

**44.** Our testing of European Structural Funds (ESF) involved a review of project documentation to verify the closing balance of projects and payments to and from

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

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the European Commission. Within the sample tested, examples were identified where the Scottish Government managing authority team started a review of a project claim but did not complete it until the following year, by which point, the final payment had been made. The Scottish Government's review of project claims is a key control in the management of EU funding. In our sample, this meant the Scottish Government overpaid the project sponsor as errors were identified from internal audit findings or management review. The Scottish Government review of project claims classified gaps in documentation as audit trail errors. Yet when these project claims were audited, the gaps in documentation were identified as procurement errors which attract higher penalties from the European Commission.

#### Action Plan point 4 (Appendix 1)

**45.** Our work on receivables identified a number of balances that had been written off substantially later than we would have expected. For example two balances were written off in 2016/17 in relation to companies who had stopped trading in 2009 and 2012 respectively which indicates a lack of timely review of aged debt. Our work also identified a number of receipts which were unallocated as they could not be matched to invoices.

**46.** In addition, our work on European Structural Funds identified a number of invoices that had been cancelled using credit memos with a view to raising new invoices. However, no new invoices were raised. We were advised the debt was still being pursued therefore the credit memo meant the receivables balance was understated. Management agreed to adjust the accounts in relation to this issue. However, the use of credit memos in this way is contrary to good practice. Together, these issues highlight that the Scottish Government should ensure effective debt management processes are in place.

#### Action Plan point 5 (Appendix 1)

### Prevention and detection of fraud and irregularity

**47.** We assessed the Scottish Government's arrangements for the prevention and detection of fraud. Our audit work covered reviews of the Scottish Government's Fraud Policy, Counter-Fraud Strategy, Whistleblowing Policy and its Annual Fraud Report and how these arrangements are communicated across the organisation.

**48.** We concluded that the Scottish Government is proactive in promoting fraud awareness and had appropriate and adequate arrangements in place for fraud detection and prevention during 2016/17.

### National Fraud Initiative

**49.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error ([Exhibit 5](#)).

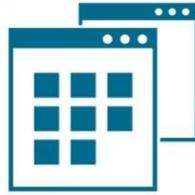
## Exhibit 5

Total number of matches



3,689

Number recommended for investigation



800

Completed/closed investigations



861 (of which 788 were recommended matches)

Source: NFI FMS as at September 2017

**50.** The Scottish Government participates in the biennial NFI exercise through uploads of payroll and accounts payable data. The data submitted by the Scottish Government covers of all those bodies which use its payroll and accounts payable shared services in addition to its own operations.

**51.** We reviewed the Scottish Government's progress during 2016/17 in investigating data matches. As with the previous NFI exercise, good progress had been made investigating the accounts payable matches with slower progress in investigating recommended payroll matches due to resourcing pressures. No progress had been made on investigating the procurement matches at the time our review was undertaken in June 2017. As at September 2017, investigation of procurement matches remains outstanding.

**52.** The Scottish Government should consider a more joined-up approach with a central NFI contact responsible for co-ordinating match investigation work and ensuring that results are reported and disseminated across the Scottish Government.

**Action Plan point 6 (Appendix 1)**

### Standards of conduct and arrangements for the prevention and detection of bribery and corruption

**53.** We reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

**54.** The Scottish Government has adopted the Integrity model as recommended by Police Scotland for public sector bodies to improve the prevention of and response to fraud, bribery, corruption and wrongdoing. The Integrity Group has a broader remit than the Counter Fraud Group, its predecessor. The Group is responsible for improving fraud prevention measures across corporate services within the Scottish Government as well as monitoring relevant cases of suspected external and internal wrongdoing made through formal reporting lines. We will review the arrangements and remit of this group as part of our work in planning the 2017/18 audit.

**55.** Based on our review of the evidence we concluded that the Scottish Government has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that require inclusion within this report.

# Part 3

## Financial sustainability



### Main judgements

**There are no significant concerns about the overall financial position of the Scottish Government.**

**Medium to long-term financial planning is of increasing importance given the implementation of new financial powers and is currently in development.**

**The Scottish Government needs to implement longer-term solutions to ensure it has the staff and skills in place to deliver its current priorities and new responsibilities.**

### 2016/17 financial position

**56.** The Statement of Financial Position summarises what is owned and owed by the Scottish Government. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

**57.** The Statement of Financial Position includes:

- items which are owned, have already been funded from revenues and will provide continuing economic benefit in future periods. These increase taxpayers' equity.
- items which are owed and expected to require to be funded from future revenues. These decrease taxpayers' equity.
- an analysis between amounts that will release or require funding within a year and those which will be carried into future years.

**58.** The financial statements show that the Scottish Government has net assets of £31,171 million, an increase of £990 million from 2015/16 largely attributable to increased valuations in financial investments and property, plant and equipment.

**59.** There are no significant concerns about the overall financial position. The performance report (which forms part of the annual report) includes a commentary on the statement of financial position and its components.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

## Financial planning

**60.** The Scottish Government published its 2017/18 draft budget in December 2016. This included a resource allocation of £32,128.9 million which is £2,565 million (2.5 per cent) more than the initial 2016/17 budget allocation.

**61.** The Scottish Government plans to use its full capital borrowing allowance for the year of £450 million (an increase from £333 million in 2016/17). Amounts carried forward from 2016/17 will also be used to support 2017/18 budget commitments. For example, the financial transactions budget has a carry forward of £53.5 million from 2016/17. Financial transactions are used to make loans or equity investment but must be repaid in future years. The financial transactions budget will therefore be critical to any loan initiative the Scottish Government may choose to offer to farmers during 2017/18.

**62.** The Scottish Rate of Income Tax forecast for 2017/18 is £11,858 million compared to £4,900 million in 2016/17. This is due to the Scottish Government's tax powers extending as part of the Scotland Act 2016 to cover all non-saving non-dividend income tax, the rates and bands of which have been set by the Scottish Ministers.

**63.** The importance of medium to long-term financial planning cannot be understated particularly given the increase in uncertainty that new borrowing and tax powers bring to the Scottish Government's budget. The Scottish Government will need a different approach to budget management, moving away from an in-year, annually managed approach; to a longer term multi-annual approach using the new tools at their disposal to smooth variations in budgets from internal and external factors. Further details on Scottish Government plans in this area are outlined at paragraphs 82-85.

**64.** The Scottish Budget is now intrinsically linked to the performance of the Scottish economy relative to the performance of the rest of the UK's economy. If the Scottish economy performs better to the rest of the UK economy, then Scotland retains any surplus in devolved taxes receipts compared to the block grant adjustment applied.

**65.** The performance of the Scottish economy is also influenced by macro economic policies set by the UK as well as taxpayer's behaviour as a result of tax policies set and applied in Scotland, which in turn also impacts the Scottish Budget. The Scottish Government needs to ensure it has good scenario planning in place taking all these factors into account, when setting budgets to support fiscal decisions such as the level of borrowing.

**66.** To help the Scottish Government manage any shortfalls in budget, from 2017/18 the Scottish Government can also borrow to support revenue spending. The annual limit for resource borrowing for 2017/18 is £600 million to be used where there is a shortfall in tax receipts or a forecast error.

## Devolved taxes

**67.** The 2016/17 financial year was the first year that all three devolved tax powers from the Scotland Act 2012 were fully implemented. The Scottish Government prepared forecasts for Land and Buildings Transactions Tax (LBTT) and Scottish Landfill Tax (SLfT) revenues for inclusion in the draft budget, while a Scottish Rate of Income Tax (SRIT) was set for the first time.

**68.** The Scottish Fiscal Commission (SFC) was responsible for providing independent scrutiny of the Scottish Government's tax forecasts. For 2016/17, the SFC assessed the forecasts for LBTT and SLfT as reasonable based on the data available. The amounts raised from LBTT and SLfT in 2016/17 were £484 million and £149 million respectively. This was £38 million less than the total £671 million forecast as part of the 2016/17 budget. The [Forecast Evaluation Report](#) published

by the SFC in September explains that forecasts for LBTT are influenced by transactions and house price forecasts. The SFC reported that variances were due to overestimating the house price forecast within the LBTT forecast; and for SLfT underestimating the level of standard rated waste which led to higher receipts than forecast.

**69.** As with any forecast, actual amounts are likely to differ from those predicted. For example, in 2015/16, tax receipts from LBTT and SLfT were £74 million higher than forecast. This additional income was transferred to a cash reserve designed to help offset any future shortfalls between forecast amounts and income received. In 2016/17, the Scottish Government managed its £38 million shortfall from LBTT and SLfT through underspends in its overall budget, therefore the cash reserve balance remains at £74 million. From 1 April 2017, this balance transferred to the Scotland Reserve in line with Scotland's Fiscal Framework agreement. Any surplus or shortfalls in the budget will now need to be met from the Scotland Reserve.

**70.** In March 2017, we reported in our [Managing new financial powers update](#) that the Scottish Government urgently needs to finalise policies and principles for capital and revenue borrowing and reserves, and further develop its longer-term financial scenario planning. Making these publicly available will enhance financial transparency and help demonstrate good public financial management.

**71.** From 1 April 2017, forecasts for Non-domestic rates income and devolved tax powers will be provided by the Scottish Fiscal Commission. Forecasts will be produced at least twice a year, at the same time as the Scottish Government publishes its draft budget and introduces the Budget Bill to the Scottish Parliament. This will introduce greater independence and challenge to the Scottish Government's forecasts which underpin its budget proposals and longer-term spending plans.

## Capital borrowing

**72.** The treatment of Private Finance Initiative, Public Private Partnership and Non-Profit Distributing (NPD) investment projects in the Consolidated Accounts is based on accounting standards. The Scottish Government has applied the correct accounting treatment and such projects are generally treated as 'on-balance sheet' capital investment in the accounts.

**73.** In July 2015, the Office for National Statistics (ONS) decided that the Aberdeen Western Peripheral Route (AWPR), which was a Scottish NPD investment project, should be classified as a public sector project in the National Accounts. In accordance with HM Treasury Consolidated Budgeting Guidance, budget treatment of these projects is determined by their position in the National Accounts. In November 2016, the ONS confirmed a similar classification for three further projects (Edinburgh Sick Kids Hospital, Dumfries & Galloway Royal Infirmary and the National Blood Centre). This classification means that capital budget cover is required at the point of initial investment, rather than revenue budget cover for the annual payments over the lifetime of the contract.

**74.** This resulted in charges against fiscal DEL budgets which required to be managed within budget limits. This meant that spending plans had to accommodate NPD expenditure within overall annual budget limits. In both 2015/16 and 2016/17, the Scottish Government agreed with HM Treasury that it could record these amounts against its capital borrowing limit. In 2016/17, the Scottish Government used its total capital borrowing limit of £333 million for this purpose. Although this did not result in actual borrowing, it removed the Scottish Government's power to borrow for capital purposes in 2016/17.

**75.** Looking ahead the draft Scottish budget estimates further capital spending of £190 million for these four projects in 2017/18. In March 2017, HM Treasury informed the Scottish Government that any capital pressures arising from NPD projects as a result of the ONS classification would have to be absorbed within

capital DEL limits with capital borrowing powers to be used as intended. The additional capital borrowing powers introduced in 2017/18 from the Scotland Act 2016 provides the Scottish Government with more flexibility in responding to spending pressures across its capital programme.

## CAP loan schemes

**76.** In our annual audit plan, we highlighted potential risks to the financial transactions budget as a result of loan schemes created to ensure farmers received money as a result of delays to Common Agricultural Policy subsidy payments. The Scottish Government established two loan schemes during 2016/17 to help farmers and rural businesses receive money more quickly. The loans were funded from the Scottish Government's financial transactions budget which supports loan schemes that go beyond the public sector. Note 9 (page 87) of the Consolidated Accounts discloses that £370 million of loan payments were made in 2016/17 with £196 million repaid. An additional £43 million was repaid in 2016/17 relating to the 2015 Less Favoured Area Support Scheme (LFASS) loan scheme, with £239 million recovered overall by 31 March 2017. A further loan scheme in relation to the 2016 LFASS was launched in April 2017 and a loan scheme in relation to the 2017 Basic Payment Scheme (BPS) was announced in September 2017.

**77.** The Scottish Government had to manage in-year loan funding carefully to minimise the risk of overspends against its 2016/17 capital financial transactions budget. The Financial Transactions budget was supplemented by £33 million capital budget to meet loan scheme commitments. Underspends in other financial transactions budgets meant that the Scottish Government was able to carry forward £53.5 million of financial transaction budget to support 2017/18 budget plans.

**78.** As part of our financial statements audit work we reviewed a sample of payments made to farmers to satisfy ourselves that the year-end balance disclosed in the consolidated accounts was correct. We did not identify any issues as part of this testing.

## Workforce capacity

**79.** We highlighted in our annual audit plan that financial devolution under the 2012 and 2016 Scotland Acts brings increased responsibility for financial management at a time of increasing pressures on resources. It is therefore important the Scottish Government ensures it has sufficient capacity and resources to effectively manage its increased financial responsibilities and implement the new financial powers, alongside business as usual activities.

**80.** The Scottish Government recognises the significant staffing implications of the new financial powers and the challenges it faces in recruiting staff with the required skills. It has started to reallocate existing staff and recruit new people to meet immediate pressures. The Scottish Government now needs to implement longer-term solutions to ensure it has the staff and skills in place to deliver its current priorities and new responsibilities. It will be important that it integrates new approaches to workforce planning, developed through SG2020, into its processes at all levels of the organisation.

**81.** As part of their 2016/17 programme of audits, internal audit reviewed capacity, resources and shared service provision within the Information and Technology Services (iTECS) division. The review highlighted a risk around capacity as it found that iTECS continues to operate with less than their full complement of staff. Contractors are used to address specific skills and resource gaps and other general staff shortages in both IT and non-IT posts. Internal audit raised concerns that as the number of bodies who plan to use Scottish Government's shared services increases, resourcing challenges significantly increase the risk that iTECS will be unable to deliver an effective service.

## Medium to long term financial planning

**82.** The Scottish Government acknowledges the benefits of taking a longer-term view and has been developing its processes to reflect the fiscal framework. It undertakes longer-term analysis and assessments to support financial decision making. This has included, for example, modelling scenarios to assess the potential impact on tax raising and spending projections. It has not yet finalised an overarching longer term approach for managing Scotland's public finances which reflects its new financial powers.

**83.** A key element to strategic public financial management is a medium-term financial strategy setting out the expectations and broad financial plans for the next five years. This should be underpinned by clear policies and principles for using, managing and controlling the available financial powers. The Scottish Government is currently considering a number of detailed recommendations prepared by the Budget Process Review Group, established by the Finance and Constitution Committee, which includes the need for a medium-term financial strategy.

**84.** This would involve the Scottish Government setting out its expectations and broad financial plans and projections for at least the next five years following the UK Government's Spring Budget Statement.

**85.** Developing a medium-term financial strategy will help the Scottish Government to assess and keep under review the long-term sustainability of Scotland's public finances. This includes considering the longer-term implications of policy decisions and how these sit alongside existing commitments and anticipated changes in the economy, revenues and spending.

## Developing financial reporting

**86.** The Scottish Government plan to bring forward their reporting on the final outturn for the Scottish Administration. The Scottish Government plan to produce the Scottish Administration Statement of Financial Position (previously called the balance sheet) information alongside the outturn information normally produced. In doing so, it provides the Scottish Government with the opportunity to explain how some of the liabilities for the Scottish Public Sector will be met, including pension liabilities from unfunded pension schemes such as those for NHS staff, teachers and police officers.

**87.** Plans for producing a Scotland Public Sector 'shadow account' for 2016/17 are underway and the Scottish Government plan to complete the shadow account in Spring 2018. The Scottish Government intend to use Whole of Government Accounts input to do this. The scope for the first year has been limited to bodies included in the WGA process such as material executive non-departmental public bodies (NDPBs) and local authorities.

# Part 4

## Governance and transparency



### Main judgements

**The Scottish Government has introduced new governance arrangements during the year and these remain in development. It is therefore too early to comment on their effectiveness.**

**The Scottish Government has committed to open and transparent government and there is scope to be more transparent and lead the Scottish Public Sector in transparency and citizen experience.**

**Internal audit operates in accordance with the Public Sector Internal Audit Standards.**

### Governance arrangements

**88.** In October 2016, the Scottish Government implemented new governance arrangements with the aim that they better reflect the demands placed on the organisation created by new financial powers and constitutional change.

**89.** There are now three core corporate boards replacing the previous six boards. These boards are supported by a new structure of quarterly Director General led assurance group meetings. The number of non-executive directors reduced from twelve (including some overlap between changes in appointments) to seven although the individual time commitment has increased. Each non-executive director is now paired with a Director General with the aim of allowing greater development of subject knowledge.

**90.** The UK Corporate Governance Code 2014 suggests board dialogue should be constructive and challenging to avoid the risk of 'group think'. Aligning Non-Executives to Director Generals should encourage greater knowledge in specific areas, helping to facilitate constructive challenge. At the same time, it is important that non-executive directors are able to provide an appropriate balance of support and challenge and their level of engagement should reflect this independent role.

**91.** In July 2017, the governance arrangements changed further at Executive Team level. The Director General Finance role was changed to reflect Scotland's new fiscal responsibilities; and a Chief Financial Officer role was also created to oversee financial management and operational matters, reporting to Director General Organisational Development and Operations.

**92.** We reviewed the revised corporate governance manual and followed up the principles of good practice as set out in our [Role of Boards](#) report published in 2010. We also considered minutes and papers from our attendance at all Scottish Government Assurance and Audit Committee meetings and a sample of Director General assurance meetings. We observed that meetings had extensive agendas and this limited the time for discussion on key issues. Similarly we noted overlap in discussions arising from the same non-executives attending a number of different corporate boards and groups as part of their new remit. This may result in the

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

perception of reduced scrutiny if detailed discussions have already taken place in other forums. It will be important for the Scottish Government to reflect on these issues to ensure that, as arrangements evolve, they become both efficient and effective in allowing good scrutiny, challenge and support.

**93.** During summer 2017, an independent review of the governance arrangements led by the Crown Agent, a Non-Executive Director and the Director of Internal Audit took place. Separate interviews have taken place with Non-Executive Directors and Audit Scotland as part of this review. We consider undertaking a review a positive step and evidence of good practice. At the time of writing the review's findings were due to be presented to the Scottish Government in October 2017.

**94.** Overall, the governance arrangements continue to evolve since the new structure was introduced in October 2016. We will continue to monitor the development of these arrangements to support proactive management of internal controls and risks and foster an environment in which constructive challenge in corporate forums strengthens decision-making and accountability. The success of the new arrangements will be determined by how they operate in practice. Central to this will be the culture and behaviours adopted by those involved to ensure scrutiny and challenge are effective and transparency is exercised.

## The Annual Governance Statement

**95.** Under HM Treasury's Financial Reporting Manual (FReM), the Scottish Government must prepare an annual governance statement within the Annual Report and Accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

**96.** The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

**97.** We concluded that the annual governance statement 2016/17 complies with the guidance issued by the Scottish Ministers and based on our knowledge and work performed, presents an appropriate assessment of governance arrangements and matters.

## Internal audit

**98.** The Scottish Government Internal Audit Directorate (IAD) provides the Scottish Government and each Accountable Officer with independent assurance on the Scottish Government's overall risk management, internal control and corporate governance processes.

**99.** We carried out a review of the adequacy of the internal audit function and concluded that the Scottish Government's IAD operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**100.** As with the previous year, 2016/17 continued to be a period of transition for IAD. For example:

- a new Director of Internal Audit took up post in April 2016 and additional appointments were made, in particular to the audit manager grades;
- the internal audit year was realigned to the financial year;
- revised Scottish Government governance arrangements were implemented during the year;

- recommendations from the 2015 Strategic Review of IAD were progressed further.

**101.** Our review found:

- During 2016/17, 13 per cent of 115 planned assignments were either postponed or deferred to 2017/18. This was due to either pressure on resources or because local arrangements were not in place (such as planned systems changes) to allow the audit to proceed.
- IAD continued to face staffing pressures in 2016/17 through a combination of increased demand for internal audit work and competing priorities during which overall staff numbers were below establishment. IAD increased staff numbers during 2016/17 and more recently concluded a recruitment campaign to further enhance capacity and take them to establishment.
- IAD continues to make progress against the recommendations set out in the Strategic Review of Internal Audit from 2015. Progress against these recommendations and the findings from IAD's own internal review were presented to the Scottish Government Assurance and Audit Committee in June 2017. The internal review included a planned revision of the Internal Audit Manual which is essential to ensure it complies with PSIAS.
- Under the new governance arrangements, IAD report to the Scottish Government Assurance and Audit Committee and individual public body audit committees (PBACs). Summary progress reports are received by the Scottish Government Assurance and Audit Committee and also to the related Director General assurance group meetings. Individual audit reports are presented to relevant PBACs but reports relating to the core Scottish Government are not presented to either the Scottish Government Assurance and Audit Committee or Director General assurance groups. There is no agreed framework in place between IAD and the Scottish Government to determine the nature and level of reporting to audit committees or assurance groups.
- Looking to 2017/18, there remains a risk to the successful delivery of the internal audit plan as a result of increasing demand pressures on IAD at the same time as organisational changes take place. As the Scottish Government implements new devolved powers, it is important that IAD sets out a clear plan to identify the right skills and training necessary to ensure it is able to provide a strong and effective audit service in this evolving environment.

## ICT

**102.** On 12 May 2017 a number of health bodies in Scotland were affected by a global ransomware cyber attack. A report was presented to the Scottish Government Assurance and Audit Committee in June 2017. This report discussed the impact of the WannaCry attack and the mitigations put in place by the Cyber Security Operations Centre. The Scottish Government was not directly impacted by the attack but co-ordinated responses across central and local government.

**103.** A Cyber Security Strategy 2020 has been agreed. The Scottish Government intends to develop an action plan to promote a common approach to cyber resilience capabilities across Scotland's public bodies. This will include encouraging organisations to sign up to the Cyber Essentials Scheme to help protect themselves against cyber threats.

**104.** In May 2017 we published an interactive briefing [Principles for a digital future: Lessons learned from public sector ICT projects](#). The briefing summarises the issues we have identified in our previous reports on public sector ICT projects and considers how other countries are managing ICT programmes. The briefing

highlights a number of common themes and organises them into a set of core principles. This briefing was considered by the Scottish Government Assurance and Audit Committee in June 2017 as part of our progress update.

**105.** The summary does not aim to provide all the answers, or provide a different story to previous lessons-learned summaries. It aims to pull together the main findings from our series of recent reports on ICT project failures in Scotland, and to signpost Scottish public bodies to the learning points of others. The principles are supplemented with case studies and examples to highlight our messages.

## Risk management

**106.** As part of our planning work, we performed a high-level review of the Scottish Government's risk management arrangements. However these arrangements were still in development and under review as part of the new governance structure implemented in October 2016.

**107.** The Scottish Government has continued to develop its risk management arrangements during the year. The Scottish Government's risk improvement project piloted new ways to embed risk into meetings and agendas using risk themes as a way to focus discussions. Guidance around risk management is being developed to provide updated tools and techniques to support users. Different versions of a risk register template are being trialled by directorates as a way to improve risk reporting.

**108.** The strategic risk register is reviewed by the Executive Team and by the Scottish Government Assurance and Audit committee. Therefore risks escalated to this level should ensure senior management review and allow more visibility and challenge.

## Transparency

**109.** Transparency means that the public has access to understandable, relevant and timely information about how the Scottish Government is taking decisions and using its resources.

**110.** In April 2015, Scotland became one of 15 pioneer governments of the Open Government Partnership. The Open Government Partnership is an initiative which aims to secure commitments from governments to promote openness, transparency and citizen experience. A National Action Plan was prepared during 2016/17 to support transparency and improve citizen participation.

**111.** Executive Board meetings are held in private with summarised minutes published on the Scottish Government's website. With increasing public expectations for more openness in the conduct of public business, the Scottish Government needs to keep this area under review and consider whether there is scope to enhance transparency in the publication of meeting agendas, papers and minutes.

**112.** The Scottish Government currently does not make available its Register of Interests for board members on its website. This is good practice in line with 'On Board' guidance developed by the Scottish Government in March 2017. Doing so would support the Scottish Government's commitment to open government and match its own expectations regarding transparency in public bodies. Taking steps to increasing transparency would help strengthen its commitment to the Open Government Partnership and improve public trust and confidence in Government.

### Action Plan point 7 (Appendix 1)

**113.** The Scottish Government's performance in meeting Freedom of Information (FOI) statutory 20 day targets requires improvement. The Information Commissioner has given the Scottish Government interim targets of 85 per cent,

90 per cent and 95 per cent over the next three years with the aim of improving response times. This concern has also been reflected in the Scottish Government's Governance Statement. The Scottish Government has established an improvement project with the aim of addressing the issue.

# Part 5

## Value for money



### Main judgements

**Performance management and monitoring arrangements are in the process of being redeveloped.**

**Further developments in this area are required by the Scottish Government to better demonstrate their own performance and contribution to outcomes over the medium term.**

### Performance management

**114.** The National Performance Framework sets out the overall aims of the Scottish Government including a series of indicators against which performance is monitored. Indicators include National Outcomes, Purpose Targets and National Indicators and performance against these targets is reported publically via the Scotland Performs website.

**115.** Overall responsibility for the delivery of performance targets lies with the Executive Board. As reported in the governance statement, work is underway to develop a balanced scorecard for use by the Board to highlight organisational performance and drive improvement. It is important that the Executive Team have access to relevant accurate and timely information in order to monitor performance against targets and ensure desired outcomes are achieved. We will continue to monitor development of performance information for the Executive Board as part of the 2017/18 audit.

**116.** As part of the new governance structure introduced in October 2016, a Performance and Priorities Board was established. The overall responsibility of the board is to track delivery of Programme for Government commitments, with the Performance Framework a key focus of the board's activity. From a review of minutes it is apparent that the latter part of 2016/17 was a developing period for the Board, with questions over, and subsequent revisions to their remit. Going forward it will be important for the Board to have a clear, established remit and role in order to drive performance improvements. Again, we will continue to monitor the operation of the Board as the new governance arrangements become more established.

**117.** In previous years we have highlighted that there remains scope for the Scottish Government to develop its annual reporting to provide a more extensive analysis of its overall performance and development during the year, drawing on relevant performance data including key financial information from the accounts. That remains the case. Greater transparency about the Scottish Government's own performance towards meeting its strategic objectives would provide greater accountability for the use of financial resources outlined in the consolidated accounts.

Value for money is concerned with using resources effectively and continually improving services.

**118.** A more rounded account of the Scottish Government's overall performance would enhance reporting to the Scottish Parliament and the public, and help strengthen accountability and scrutiny. A key challenge in managing performance is aligning financial and performance information in a meaningful way, so that the impact of spending decisions on performance and outcomes is better understood.

**119.** Relevant and reliable performance information is central to measuring the Scottish Government's contribution to delivering outcomes. In seeking greater links between spending and outcomes, the Budget Process Review Group recommended that the Scottish Government clearly links its detailed spending proposals to relevant policies, strategies and plans. The Group also recommended that the Scottish Government strengthens its performance planning and reporting to provide a greater focus on the delivery of outcomes.

**120.** As Scotland's fiscal responsibilities continue to grow, expectations are increasing for the Scottish Government to produce more detailed and transparent performance reporting. Further developments in this area are required by the Scottish Government to better demonstrate their own performance and contribution to outcomes over the medium term. This would provide a strong example to other public bodies and mirror the Government's own expectations of how other bodies should demonstrate their performance.

## Following the public pound

**121.** As part of our 2016/17 Annual Audit Plan we set out planned work to give us assurance over the Scottish Government's arrangements and the steps it takes to ensure that public money is used for the purposes intended in a number of specific areas:

- We completed expenditure testing which covered work on grant monitoring. We reviewed evidence of monitoring by the Scottish Government on a sample basis to ensure funds were spent in line with the conditions set out in the grant offer letter. We concluded that appropriate monitoring arrangements were in place.
- We conducted a review of the newly created Attainment Fund. We reviewed the high-level controls in place and the oversight and accountability arrangements between the Scottish Government and local authorities/schools. No issues were identified from this work.
- We followed up the recommendations from our 2015/16 work on T in the Park and found that all grant conditions had been followed as expected.

## National performance audit reports

**122.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Since our previous annual audit report, we published a number of reports which are of direct interest to the Scottish Government. These are outlined in [Appendix 4 \(page 43\)](#) accompanying this report. There are two reports which are of particular relevance, [Managing New Financial Powers: An Update](#) published in March 2017 and [Common Agricultural Policy Futures Programme, Further Update](#) published in June 2017.

**123.** The Managing New Financial Powers report focused on the new powers devolved to the Scottish Parliament as a result of the 2012 and 2016 Scotland Acts (the Scotland Acts). The report made a number of recommendations including that the Scottish Government should:

- monitor regularly how much is being spent on implementing the financial powers in the Scotland Acts against what has been planned

- develop more detailed estimates of how much it will cost to implement the financial powers in the Scotland Acts
- integrate new approaches to workforce planning, developed through its SG2020 change programme, into its processes at all levels of the organisation
- share its approach to implementing the social security powers publicly
- develop a medium-term financial strategy
- finalise principles for using its borrowing powers and the Scotland Reserve as a matter of urgency and make these publicly available
- demonstrate publicly the progress it is making toward introducing a comprehensive account of Scotland's public finances.

**124.** The Common Agricultural Policy Futures programme, further update report looked at the Scottish Government's Common Agricultural Policy (CAP) Futures programme which started in 2012 and was a five-year business change and Information Technology (IT) programme to deliver CAP reform. We had previously reported in May 2016 that the programme was having significant difficulties and made a number of recommendations to mitigate the risks that remained. The 2017 report found that some progress had been made with the now closed programme, but it had not yet delivered value for money or all planned benefits for farmers and rural businesses. It notes that the Scottish Government used loan schemes to get money to farmers more quickly, but payment delays for 2016 applications meant loans took longer to recover than planned, which introduced more risk to the wider Scottish budget and put pressure on payment timescales and staff.

**125.** Our 2017 report updated our 2016 recommendations and made a number of other recommendations. These included that the Scottish Government should:

- Complete a detailed assessment of the risk of financial penalties to inform decisions on the prioritisation of further work to improve and add functionality to the system.
- Prioritise time for the transfer of knowledge and expertise from programme staff to staff in the business.
- Develop and test a disaster recovery solution covering the whole IT system taking account of the level of risk that the Scottish Government is prepared to accept.
- Develop and keep under review processes for monitoring and testing quality.
- Develop a framework to prioritise future investment in the system.
- Develop a benefit realisation plan to record and monitor all potential benefits and value that the system can provide.
- Communicate clearly the payment timescales and processes to farmers, crofters and rural businesses.
- Communicate clearly with staff about the values and new ways of working of the directorate.
- Ensure leadership operates strategically across the directorate.

**126.** The Executive Board considers our national reports. Details of relevant reports are included in the finance report to the board. In addition we highlight relevant reports to the Scottish Government Assurance and Audit Committee in our regular updates to the committee.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Paragraph no.	Issue/risk	Recommendation	Agreed management action/timing
17	<p><b>1. Governance Statement</b></p> <p>The Governance Statement was received after the submission of the financial statements for audit. This was due to the internal timetable the Scottish Government had in place for its preparation and approval.</p> <p><b>Risk</b></p> <p>The Governance Statement is a key component of the Government's consolidated accounts. There is a risk that there is insufficient time for audit to review, and form an independent opinion, on the Governance Statement in line with the Government's own timetable for finalising its annual report and accounts.</p>	<p>The Scottish Government should review the process and timetable to ensure a complete Governance Statement is presented to audit as part of its submission of the unaudited accounts.</p>	<p>We appreciate that the scheduling for audit consideration of the final version of the Governance Statement, reflecting the Governance statements of all the bodies consolidated, consideration by Scottish Government Accountable Officers and review the Permanent Secretary, was tight this year.</p> <p>We would be happy to provide a draft Governance statement with the unaudited accounts but it will necessarily be subject to amendment: the Governance Statement process necessarily completes with all the related assurance and review processes.</p> <p>We will consider where elements, including all the stages of the internal certificates of assurance process, may be advanced in the scheduling for next year's processes.</p> <p>Responsible officer: Aileen Wright, Deputy Director, Finance</p> <p>Agreed date: 31 March 2018</p>
Exhibit 3,1	<p><b>2. European Structural Funds</b></p> <p>The Scottish Government has a contingent asset in the consolidated accounts</p>	<p>The Scottish Government has started to raise invoices for this debt. The recovery still remains uncertain as amounts may be subject to appeal. If a decision is taken</p>	<p>Scottish Government procedures will be followed in any potential write off which would include consideration of the reasons and any state aid</p>



Paragraph no.	Issue/risk	Recommendation	Agreed management action/timing
	<p>to recognise that debt owed to them from project sponsors may be recovered.</p> <p><b>Risk</b></p> <p>If the Scottish Government does not pursue this debt, there is a risk that the European Commission may apply state aid penalties.</p>	<p>that results in debts being written off, the Scottish Government should clearly outline the reasons why and also includes an assessment of the potential risk and impact of the European Commission applying state aid penalties.</p>	<p>implications.</p> <p>Responsible officer: David Anderson, Head of European Structural Funds State Aid Division</p> <p>Agreed date: 31 December 2017</p>
Exhibit 3,5	<p><b>3. Gender analysis</b></p> <p>The FReM requires an analysis of the number of persons of each sex who were directors, senior civil servants and employees to be reported. This analysis is not reported in the consolidated accounts because this information was not captured by the consolidation packs submitted by consolidated bodies.</p> <p><b>Risk</b></p> <p>There is a risk that the remuneration and staff report does not fully meet the requirements of the FReM.</p>	<p>The Scottish Government should review its arrangements to ensure it captures this information to meet the requirements of the FReM.</p>	<p>We will consider this with Scottish Government colleagues through our internal planning processes in respect of the 2017-18 Consolidated Accounts.</p> <p>Responsible officer: Aileen Wright, Deputy Director, Finance</p> <p>Agreed date: 31 March 2018</p>
44	<p><b>4. Training on European funding controls and procedures</b></p> <p>From our sample of closure work on the 2007-13 programmes, gaps in project documentation were found to be assigned to audit trail errors rather than breaches in procurement procedures as subsequently identified by internal audit. Errors in procurement procedures attract higher penalties. In the new programmes, the review of project documentation has been</p>	<p>We recommend training on procurement rules and good practice to support Scottish Government teams reviewing the quality of project documentation.</p>	<p>Processes for the 2014-20 programme have been reviewed to ensure controls operate effectively. Training materials have been developed, are available and are being used to ensure all relevant staff are fully aware of the correct procedures.</p> <p>Responsible officer: David Anderson, Head of European Structural Funds State Aid Division</p> <p>Agreed date: Ongoing process of training staff</p>



**Paragraph no.**

**Issue/risk**

**Recommendation**

**Agreed management action/timing**

designed to occur before any payment is made. The review is a key control and therefore staff should be suitably trained to ensure it operates effectively.

**Risk**

Without further training there is a risk of a high error rate which may result in financial penalties.

**45-46**

**5. Debt management**

We identified a number of areas where effective debt management processes were not being employed. This included late write off of debt, unallocated receipts and use of credit memos to cancel debt with a view to new invoices being issued that were subsequently not issued.

**Risk**

There is a risk that the recovery of debts is ineffective and that the receivables balance in the accounts is misstated.

We recommend the Scottish Government review its debt management processes to ensure they are effective.

Procedures are being implemented to more regularly review debts owed to improve the timeliness of collection. Processes will be reviewed to ensure debt collection rules are consistently applied.

Responsible officer: David Anderson, Head of European Structural Funds State Aid Division

Agreed date: 31 December 2017

**52**

**6. National Fraud Initiative**

There should be more of a joined up approach to NFI across the Scottish Government. The NFI exercise is effective in detecting fraud and error in public sector organisations. In addition, it can help strengthen internal controls to protect against fraud and error.

**Risk**

Without a joined up approach and central NFI contact there is a risk that potential fraud is undetected.

The Scottish Government should consider a more joined up approach with a central NFI contact responsible for co-ordinating match investigation work and ensuring that results are reported and disseminated across the Scottish Government.

We will consider how to improve the current NFI coordination activity as part of our engagement with Audit Scotland and the Cabinet Office to enhance the approach to the NFI in Scotland.

Responsible officer: Brian Taylor

Agreed date: 31 March 2018



**Paragraph  
no.**

**Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

112

**7. Publication of register  
of interests**

The Scottish Government does not currently make the Register of Interests for its board members available on its website.

Publishing the register is good practice and in line with guidance issued by the Scottish Government to public bodies and would support the Government in its commitments through the Open Government Partnership to increase transparency.

**Risk**

There is a risk that the Scottish Government is not compliant with good practice guidance.

We recommend that the Scottish Government makes available its register of interests on its website by October 2017.

We understand the importance of considering this issue further and will do so over the course of 2017-18 as part of the on-going wider organisational work to develop the Scottish Government website and in conjunction with the internal review of the implementation of the new corporate governance framework, which was introduced in October 2016.

Responsible officer: Donald Cameron, Head of Executive Team Support

Agreed date: 31 March 2018

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 EU funding</b></p> <p>There are material balances and transactions in the consolidated accounts relating to EU funding:</p> <ul style="list-style-type: none"> <li>European Structural Funds 2014-20 programme: the Scottish Government intends to make payments to lead partners in 2016/17.</li> <li>Expenditure and income of £445 million relating to European Agricultural Fund schemes.</li> </ul> <p>This audit risk requires us to ensure that EU funding balances and transactions are reflected appropriately in the accounts.</p>	<p>Test expenditure and accrued income balances at the year end for structural funds.</p> <p>Engage with local auditors to join up information and analysis on structural funds.</p> <p>Engage with internal audit (as the audit authority for structural funds) and seek assurances where possible.</p> <p>Seek assurances from the auditors of the European Agricultural Fund on the control environment and supplement with targeted substantive testing.</p> <p>Test accrued expenditure and income balances at the year end for European Agricultural funding.</p>	<p>Payments to lead partners totalled £2 million during 2016/17 as the Scottish Government prioritised its closure work relating to the 2007-13 programmes. Therefore there was no material balance or transactions to test during the audit.</p>
<p><b>2 EU structural funds: potential losses and penalties</b></p> <p>The 2015/16 consolidated accounts included a provision for a loss of income of £14 million in relation to the 2007-13 structural fund programmes. This amount may change as the audit authority (internal audit) reviews and reports on closure reconciliations, due to be completed by 31 March 2017.</p> <p>This audit risk requires us to ensure that the provisions and balance appropriately reflect the</p>	<p>Test a sample of closure reconciliations and the calculation of any related provisions for penalties for accuracy and completeness.</p> <p>Review the extent of recoveries where projects are withdrawn or de-committed and consider if there are any state aid implications.</p> <p>Review internal audit's reports and supporting work on the closure process and consider whether the accounting and disclosures in the accounts (including the governance</p>	<p>We engaged with Internal Audit and reviewed their findings that supported their Final Audit Report to the European Commission.</p> <p>We placed reliance on their work with regard to their Article 62b verification work and the error rates arising from this work.</p> <p>The provision of £14 million crystallised to a liability of £31 million. We substantively tested the substance of transactions and working papers which informed this position and the</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>associated liability.</p>	<p>statement) are appropriate.</p>	<p>accounting for it.</p> <p>The consolidated accounts also include an unquantifiable contingent asset for amounts owed to the Scottish Government by project sponsors. The Scottish Government has not decided whether to recover all of this debt. State aid risks therefore remain and will be followed up in 2017/18.</p> <p>Disclosures in the accounts are considered adequate.</p>
<p><b>3 Common Agricultural Policy (CAP) Futures</b></p> <p>The Common Agricultural Policy Futures programme is a five-year business change and IT programme to deliver CAP reform. This programme has proved significantly more complex and challenging than the Scottish Government anticipated.</p> <p>Two CAP Basic Payment loan schemes were launched during 2016/17. The loan schemes are an interim measure until the control environment and CAP Futures IT system are established.</p> <p>This audit risk requires us to ensure that the loans and EU payments are accounted for appropriately.</p>	<p>Analyse cost information and SEAS transactions.</p> <p>Substantive testing of loan advances and repayments.</p> <p>Targeted substantive testing and cut-off testing of debtors and creditors to verify timing of transactions and associated accounting.</p> <p>Consider the completeness and accuracy of the accounting for loan transactions.</p> <p>Engage with CAP Futures performance audit work and consider the findings from the upcoming Section 23 report on CAP Futures.</p>	<p>No issues were identified from our detailed testing of loan advances and repayments.</p> <p>Our testing of debtors and creditors confirmed timing and accounting for the CAP payments and associated EU funding was appropriate.</p>
<p><b>4 Estimation and judgements</b></p> <p>There are significant degrees of management estimation in the measurement, valuation and disclosures of the material account areas of student loans and contingent liabilities, including the valuation and completeness of financial guarantees provided by the Scottish Government.</p> <p>This audit risk requires us to ensure amounts and disclosures in the accounts are appropriate.</p>	<p>Further review of the student loans model (assumptions and application).</p> <p>Focused substantive testing.</p> <p>Review the identification of and record of contingent liabilities, guarantees, indemnities and letters of comfort.</p> <p>Test assumptions in contingent liability financial modelling.</p> <p>Review the disclosure of contingent liabilities, guarantees etc.</p>	<p>From our work on estimation and judgements the following points were noted:</p> <ul style="list-style-type: none"> <li>The Scottish Government changed the model used for student loans in 2016/17. The new model is consistent with all four devolved nations and the assumptions are based on information provided by the Office for Budget Responsibility (OBR). We reviewed the assumptions and application of the model. We queried the discount rate applied in the model of 2.2% and the Scottish Government confirmed that the 0.7% was the HM Treasury rate to use and the consolidated accounts</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
		<p>were updated to reflect this.</p> <ul style="list-style-type: none"> <li>We concluded our work on the accounting for the Rio Tinto Smelter guarantee and confirmed the accounting treatment is correct. Our work included a review of the model developed by Ernest and Young which made a series of accounting suggestions to Scottish Government.</li> </ul>
<p><b>5 Risk of management override of controls</b></p> <p>ISA 240 requires that auditors consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Review of internal audit reports.</p> <p>Consider the results of controls testing.</p>	<p>We carried out testing of internal controls and journal entries and reviewed accounting estimates and unusual transactions.</p> <p>We reviewed internal audit reports.</p> <p>We tested a focused sample of accruals and prepayments.</p> <p>The results of this audit work were satisfactory.</p>
<p><b>6 Risk of expenditure recognition</b></p> <p>ISA 240 presumes a risk of fraud in regard to revenue recognition in the financial statements in any audit. This can be extended to include expenditure recognition in some public sector bodies.</p>	<p>Test key internal controls.</p> <p>Test significant transactions, particularly around the financial year-end.</p> <p>Carry out analytical procedures.</p> <p>Monitor budgetary process and reporting.</p> <p>Review of counter fraud arrangements.</p> <p>Consider internal audit findings.</p>	<p>We tested controls in this area and tested transactions around the financial year end.</p> <p>The result of this audit work was satisfactory as we did not identify any issues.</p>
<p><b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b></p>		
<p><b>7 Office for National Statistics (ONS) classification</b></p> <p>The Office for National Statistics (ONS) assesses transactions to decide how they should be treated in the National Accounts.</p> <p>ONS decisions on certain capital projects do not change the accounting treatment but do</p>	<p>Keep up to date with developments as part of our wider code of practice responsibilities to consider financial management and sustainability.</p> <p>Review Scottish Government reporting on the capital budget, including disclosures in the consolidated accounts.</p>	<p>We reviewed developments in year with regard to the Office for National Statistics (ONS) work plan and decisions.</p> <p>There are no recent decisions which affect the Scottish Government's financial position in 2016/17.</p> <p>The classification with regard to housing associations capital</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>affect the capital budget. The expected impact on the capital DEL budget in 2016/17 is estimated as £398 million.</p> <p>The Scottish Government is managing its capital budget charges in the context of its overall capital programme.</p> <p>This audit risk requires us to review how the Scottish Government delivers the capital programme and how transparently the impact of the ONS decisions are reported.</p>	<p>Review other ONS decisions that may affect the Scottish Government's financial position in 2016/17 and beyond.</p>	<p>projects is likely to be addressed with new legislation in future years.</p>
<p><b>8 Workforce capacity</b></p> <p>Financial devolution under the 2012 and 2016 Scotland Acts brings increased responsibility for financial management at a time of increasing pressures on resources.</p> <p>This audit risk requires us to review actions taken by Scottish Government to ensure it has sufficient capacity and resources to effectively manage its increased financial responsibilities and implement the new financial powers, alongside business as usual.</p>	<p>Our performance audit report on Managing New Financial Powers (spring 2017) will provide an assessment of the steps the Scottish Government is taking to manage pressures on capacity, including in the finance function and the potential impact on financial management and reporting.</p> <p>Review of overtime expenditure, payments in lieu of holidays and use of contractors/agency staff.</p>	<p>Our review of overtime expenditure, payments in lieu of holidays and use of contractors/agency staff did not identify any significant issues.</p> <p>The Scottish Government has started to reallocate existing staff and recruit new people to meet immediate pressures. The Scottish Government now needs to implement longer-term solutions to ensure it has the staff and skills in place to deliver its current priorities and new responsibilities. It will be important that it integrates new approaches to workforce planning, developed through SG2020, into its processes at all levels of the organisation.</p>
<p><b>9 CAP Futures</b></p> <p>The loan scheme for farmers involves around £285 million. It is funded from the financial transactions (FT) budget (£80 million) and budgeted loan recovery (£205 million). The Scottish Government's overall FT budget for 2016/17 is £327 million.</p> <p>The EU payments due to farmers will not start until February 2017 at the earliest and may impact on the repayment of loans.</p> <p>This audit risk requires us to consider the implications for the FT budget and any related impact on the Scottish Government budget overall.</p>	<p>Review of cash flow management procedures and controls.</p> <p>Review and analysis of financial transaction budget and reporting of loans and other FT transactions.</p> <p>Review the impact of these developments on the FT budget and other loan schemes planned.</p> <p>Review of internal audit work.</p> <p>Update to the CAP Futures performance audit report will be published before the Scottish Parliament's 2017 summer recess.</p>	<p>The Scottish Government drew down cash from the consolidated fund based on forecasts. The actual cash flow did not reflect the forecast and this meant the Scottish Government had a closing cash balance of £625 million.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>10 Financial Management</b></p> <p><b>National Fraud Initiative</b></p> <p>The Scottish Government's payroll recommended matches from the 2014/15 NFI exercise were not timeously investigated.</p> <p>This audit risk requires us to assess the potential for undetected fraud or error in payroll records.</p>	<p>Completion of 2016/17 NFI questionnaire.</p>	<p>2016/17 NFI checklist has been completed by audit team.</p> <p>Good progress had been made investigating the accounts payable matches with slower progress in investigating recommended payroll matches due to resourcing pressures. No progress had been made on investigating the procurement matches at the time our review was undertaken (June 2017).</p> <p>The Scottish Government should consider a more joined up approach with a central NFI contact responsible for co-ordinating match investigation work and ensuring that results are reported and disseminated.</p>
<p><b>11 Governance and Transparency</b></p> <p><b>New governance structure</b></p> <p>The Scottish Government implemented new governance arrangements during 2016/17 designed to better support the assurance requirements of the Principal Accountable Officer. This involved significant changes to governance structures and new ways of working, including internal assurance processes.</p> <p>This audit risk requires us to review the revised governance arrangements and assess whether they provide effective oversight and assurances.</p>	<p>Attend meetings, review of papers and discussions with staff and non-executive directors.</p> <p>Follow up of the principles contained in national 'Role of Boards' report (published in 2010).</p> <p>Consider the findings of the planned review of governance arrangements.</p>	<p>We attended all Scottish Government Assurance and Audit Committee meetings and at least one meeting for each DG assurance meeting under the new arrangements.</p> <p>An independent review of the governance arrangements led by the Crown Agent, a Non-Executive Director and Director of Internal Audit was underway in June 2017 with a view to reporting findings in October 2017. We were interviewed as part of this review. We consider this review a positive step and evidence of good practice but how it will now inform future revisions of governance arrangements is unclear at this stage.</p>
<p><b>12 Developing financial reporting</b></p> <p>Significant changes were made to the presentation of the consolidated accounts in 2015/16 with further changes planned in 2016/17. This is part of the Scottish Government's programme of work to review and broaden its financial reporting in the context of new financial powers.</p> <p>The Permanent Secretary confirmed in a response to the Scottish Parliament's Public Audit and Post-legislative Scrutiny</p>	<p>Review preparations and progress against proposed timetable.</p> <p>Continue to report on the progress as part of the 2016/17 audit.</p>	<p>Further presentational changes were made to the consolidated accounts which improved the accounts for the reader.</p> <p>The Scottish Government plan to report the Scottish Administration outturn by 30 September 2017.</p> <p>The Scottish Government have designated 2016/17 as a 'shadow-year' with a view to publishing a consolidated public account during 2018.</p> <p>This is a welcome development and should aim to allow for the Parliament and others to see a</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Committee in November 2016 that the Scottish Government is also planning to produce a 'tailored-for-Scotland' 2016/17 consolidated accounts.</p> <p>This audit risk requires us to assess progress in this area.</p>		<p>comprehensive picture of the financial health of the public sector in Scotland.</p>
<p><b>Value for money</b></p> <p><b>13 Following the public pound</b></p> <p>The Scottish Government provides many different forms of funding streams and grants to a wide range of third parties.</p> <p>This audit risk requires us to consider the Scottish Government's arrangements and the steps it takes to ensure that public money is used for the purposes intended.</p>	<p>As part of our substantive testing, we will confirm on a sample basis, evidence of monitoring by the Scottish Government to ensure funds are used for the purposes intended.</p> <p>Follow up of conclusions from our 'T in the Park' work conducted in 2015/16.</p> <p>Review of the newly created Attainment Fund, including review of the controls, oversight and accountability arrangements between the Scottish Government and local authorities/schools.</p>	<p>We reviewed a sample of grant payments as well as reviewing the arrangements in place to monitor grants. We did not identify any significant issues.</p> <p>We followed up our 2015/16 work and found that grant conditions had been complied with as expected.</p> <p>We reviewed the high-level controls in place and the oversight and accountability arrangements between the Scottish Government and local authorities/schools. No issues were identified from this work.</p>

# Appendix 3

## Summary of unadjusted misstatements

**We report all uncorrected misstatements that are individually greater than our reporting threshold of £0.1 million.**

Misstatements were noted during our audit testing were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2 \(page 8\)](#). We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Comprehensive income and expenditure statement		Statement of Financial Position	
		Dr £m	Cr £m	Dr £m	Cr £m
<b>Scottish Government Core</b>					
1	Credit balance on suspense account resulting in receivables being understated.			2.71	(2.71)
2	Property plant and equipment addition of £0.359m was capitalised twice.			0.36	(0.36)
3	No current intangible asset recognised for the carbon reduction commitment.			0.26	(0.26)
<b>Gross impact</b>					<b>3.33</b>
<b>NHS boards</b>					
4	Gross adjustment of all unadjusted misstatements reported for NHS boards	4.92	(12.42)	14.83	(7.33)
<b>Gross impact</b>					<b>19.75</b>

No.	Account areas	Comprehensive income and expenditure statement		Statement of Financial Position	
<b>Executive agencies</b>					
5	No unadjusted misstatements in excess of £0.1m to report.				
<b>Gross impact</b>		4.92	(12.42)	18.16	(10.66)
<b>Net impact</b>			(7.5)	7.5	
<b>Total gross impact</b>					23.08

# Appendix 4

## Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

### Central Government relevant reports

[Common Agricultural Policy Futures programme: an update](#) – May 2016

[The National Fraud Initiative in Scotland](#) – June 2016

[Audit of higher education in Scottish universities](#) – July 2016

[Supporting Scotland's economic growth](#) – July 2016

[Maintaining Scotland's roads: a follow-up report](#) – August 2016

[Superfast broadband for Scotland: a progress update](#) – August 2016

[Scotland's colleges 2016](#) – August 2016

[Social work in Scotland](#) – September 2016

[Scotland's new financial powers](#) – September 2016

[i6: a review](#) – March 2017

[Managing new financial powers: an update](#) – March 2017

# Scottish Government

## 2016/17 Annual Audit Report

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