

# The 2019/20 audit of the Scottish Government Consolidated Accounts



AUDITOR GENERAL 

Prepared for the Public Audit and Post-Legislative Scrutiny Committee by the Auditor General for Scotland  
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# Introduction

**1.** The significant risks and uncertainty posed by the Covid-19 pandemic are providing unprecedented challenges for the Scottish Government and its management of public finances. This comes at the same time as it faces significant and ongoing risks around EU withdrawal, the implementation of new powers for social security benefits, existing spending pressures and increasing public demands for improved public services.

**2.** These are exceptional times for the Scottish Government. The effects of the Covid-19 health crisis will be felt across all aspects of the public sector and the wider economy for years to come. The Scottish Government's primary focus in recent months has been on responding to the pandemic's immediate threat to public health and the economy while outlining plans for how to repair and recover from the damage inflicted on individuals, businesses and communities. More than ever there is a need for the Scottish Government to ensure sound financial management and good governance are at the heart of its decision-making to help ensure recovery plans are robust and effective.

**3.** In December 2018, the Scottish Government published its draft 2019/20 Scottish Budget which set out its spending priorities and plans for the year. The Scottish Government's Consolidated Accounts for 2019/20 provide information on how this budget was managed and where money was spent and are a key component of the Scottish Government's accountability to the Scottish Parliament and the public. Due to the emergence of the pandemic late in the financial year, funding to support the response to, and recovery from, the pandemic was not included in the Scottish budget until 2020/21.

**4.** The boundary for the Consolidated Accounts is determined by the Scottish Government and reflects the areas for which it has direct responsibility and accountability, including the core portfolios and supporting administration the executive agencies and NHS bodies. It does not include bodies where the Scottish Government holds significant shareholdings such as Ferguson Marine (Port Glasgow) Limited, Caledonian Maritime Assets Limited (CMAL), Scottish Futures Trust or Prestwick Airport.

**5.** The Consolidated Accounts:

- cover around 88 per cent of the budget approved by the Scottish Parliament
- report the amounts the Scottish Government spent against each main budget heading, and the reasons for any significant differences
- show the amounts distributed to other public bodies including local government
- report the assets, liabilities and other financial commitments of the core Scottish Government, and bodies within the consolidated boundary, carried forward to future years
- contain a performance report, in which the government gives a limited account of its performance during the year.

**6.** I provide this report on the 2019/20 Consolidated Accounts to support the Scottish Parliament in its important scrutiny role of the Government's finances. The report contains key information from the Consolidated Accounts and explains what they show about the Scottish Government's management of its budget. It also provides information on governance and financial and performance reporting.

## Key messages

- The end of the 2019/20 financial year coincided with the most challenging period faced by the Scottish Government since devolution. The emergence of the Covid-19 pandemic and the associated emergency response has brought significant challenges and risks to the Scottish Government at the same time as uncertainty continues about the terms of the UK's withdrawal from the European Union. The impact of Covid-19 and EU withdrawal is expected to dominate the Government's financial and policy decision-making for years to come. Strong financial management and good governance will be critical to support an effective response and recovery.
- The Scottish Government's Consolidated Accounts for 2019/20 show that total net expenditure was £39,385 million, £669 million more than budget. The resource budget was overspent by £899 million (two per cent) against a budget of £36,796 million and capital was underspent by £230 million (12 per cent) against a budget of £1,920 million.
- In March 2020, the Scottish Government announced plans for two large Business Support Schemes: The Small Business Support Grant and the Retail, Hospitality and Leisure Grant to respond quickly to the impact of Covid-19 on businesses. Although funding for these schemes was not included within the Scottish budget until 2020/21, the actions taken by the Scottish Government before the year end created a constructive obligation under accounting standards in 2019/20. The Consolidated Accounts include these costs, amounting to £912 million, resulting in an overspend of £669 million against the Consolidated budget.
- In recent years, the Scottish Government has taken a direct role in providing financial support to private companies. During 2019/20, the valuations and prospects for these loans and guarantees deteriorated due to the financial challenges facing the companies. Further loans of £3.5 million and £9 million were provided to Prestwick Airport and Burntisland Fabrications Limited respectively but were subsequently valued at nil at the financial year end to reflect the likelihood of repayment. Prior to 2019/20, the Scottish Government provided loans totalling £45 million to Ferguson Marine Engineering Limited (FMEL). In August 2019, FMEL entered administration which led to the Scottish Government acquiring the business following a review of bids undertaken by the administrator. The Scottish Government needs to clearly outline its plans for future investment in private companies to ensure there is greater transparency over financial support provided and the value of public funds committed.
- The Covid-19 pandemic has brought increased uncertainty and potential volatility to public finances over the medium term. As a result, the Scottish Government postponed its planned May 2020 publication of its annual medium-term financial strategy (MTFS) until January 2021 to better reflect the likely impact of the pandemic on public finances. Inevitably, this will mean there is less time for the Parliament to scrutinise the strategy prior to the 2021/22 budget when compared to the timescales of recent years. There is a need for the strategy to make clearer the links between planned spending options and expected outcomes over the medium term to aid Parliament's understanding of the financial risks and opportunities emerging from the Covid-19 pandemic.
- In March 2020, in response to the significant emerging risks posed by the Covid-19 pandemic, the Scottish Government reassessed and revised its corporate governance arrangements. The changes to arrangements were timely and appropriate and provided a structure to

enable faster decision-making and information sharing across government directorates and corporate groups. This was particularly critical for those at the forefront of the emergency response. More widely, the Scottish Government made improvements to its governance arrangements during 2019/20. This included improvements made by the Government's Audit and Assurance Committee towards operating in line with good practice and a greater focus on risk escalation between the main governance groups across the organisation. The scale and pace of activity within the Scottish Government in responding to the challenges and risks arising from the pandemic and EU withdrawal has placed considerable strain on staff wellbeing across the organisation.

# Financial management

## Scottish Government budget performance 2019/20

7. The Consolidated Accounts show that total net expenditure during 2019/20 was £39,385 million, £669 million more than budget (Exhibit 1). The resource budget was overspent by £899 million (two per cent) against a budget of £36,796 million and capital underspent by £230 million (12 per cent) against a budget of £1,920 million.

### Exhibit 1

#### Total expenditure (resource and capital) against the Scottish Budget approved by the Scottish Parliament

The Scottish Government consolidated total was £669 million over budget in 2019/20.

Portfolio	Actual (£m)	Budget (£m)	Over/(under) spend (£m)
Health and Sport	14,565	14,587	(22)
Communities and Local Government	12,556	11,670	886
Finance, Economy and Fair Work	585	729	(144)
Education and Skills	4,328	4,122	206
Justice	2,785	2,800	(15)
Transport, Infrastructure and Connectivity	2,729	2,961	(232)
Rural Economy	388	393	(5)
Environment, Climate Change and Land Reform	479	476	3
Culture, Tourism and External Affairs	282	286	(4)
Social Security and Older People	529	543	(14)
Government Business and Constitutional Relations	13	15	(2)
Crown Office and Procurator Fiscal Service	146	134	12
<b>Scottish Government consolidated total</b>	<b>39,385</b>	<b>38,716</b>	<b>669</b>

Source: Scottish Government Consolidated Accounts 2019/20 (page 73). Further information on individual portfolio spending performance can be found in pages 74 to 85 in the Consolidated Accounts.

8. On 18 March 2020 as the financial year drew to a close, the Scottish Government announced plans for two large Business Support Schemes: the Small Business Support Grant and the Retail, Hospitality and Leisure Grant to respond quickly to the impact of Covid-19 on businesses. Guidance on using the schemes was published on 30 March 2020 and the schemes commenced on 1 April 2020

with funding transferred to local authorities who administered individual payments on behalf of the Government. The actions taken by the Scottish Government prior to the end of 31 March 2020 created a constructive obligation under International Accounting Standard 37 *Provisions, Contingent Liabilities and Contingent Assets* and therefore the related costs amounting to £912 million are included within the 2019/20 Consolidated Accounts.

**9.** My independent audit opinion on the 2019/20 Consolidated Accounts is unqualified. This means in my opinion, I am content they show a true and fair view, following accounting standards, and that the income and expenditure for the year is lawful. My audit opinion is set out at pages 69 to 72 of the accounts.

**10.** My opinion on the regularity of expenditure within the Consolidated Accounts is unqualified. The Public Finance and Accountability (Scotland) Act 2000 states that the use of resources by the Scottish Administration (including the Scottish Government) must be authorised by the Budget Act and must not exceed the amounts authorised for that year. The Budget (Scotland) Act 2019 set the expenditure limits that applied for the 2019/20 financial year. These limits are set at the Scottish Administration level, a level higher than the budget set for the Consolidated Accounts. The Scottish Administration budget combines the budgets for the Consolidated Accounts with budgets for other public bodies and accounts such as, Scottish Courts and Tribunals Services, Food Standards Scotland and the NHS and Teachers' Pension Schemes, all of which fall outside the consolidated boundary. The budget at the Scottish Administration level of £44,078 million is underspent by £122 million ([see Appendix 1](#)). Therefore, the overspend against the Consolidated Accounts budget does not represent unlawful expenditure.

**11.** High-level reasons for other significant variances between actual and budgeted spend are included in the Consolidated Accounts (pages 74 to 85). The largest underspend (£232 million) relates to the Transport, Infrastructure and Connectivity portfolio, which includes spending on projects deferred to future years and lower than anticipated demand for energy efficiency and low carbon economy schemes. This is largely offset by a £206 million overspend in the Education and Skills portfolio, which includes non-cash adjustments to the student loans model to reflect macroeconomic conditions.

### Social Security and Older People portfolio

**12.** The 2019/20 financial year is the first full year that Social Security Scotland, an executive agency, is consolidated into the Scottish Government's accounts as a separate component audited body. The relevant expenditure is disclosed within the new Social Security and Older People portfolio outturn statement (page 83).

**13.** The 2019/20 accounts include Carer's Allowance expenditure of £284.4 million. The auditor confirmed in their independent auditor's report that the other transactions in the accounts, including Carers Allowance Supplement, Best Start Grant and administration expenditure comply with all relevant legislation, regulations and guidance but qualified their regularity opinion because of overpayments of Carer's Allowance. The Department for Work and Pensions, who deliver Carer's Allowance on behalf of the Scottish Government, estimates the level of error and fraud in the benefit to be 5.2 per cent, which means an estimated £14.8 million of overpayments were made in Scotland. Further details can be found in my separate report on the 2019/20 audit of Social Security Scotland.

**14.** As a component audit, the qualified audit opinion on the Social Security Scotland accounts requires me to assess the potential impact of its inclusion within the Scottish Government's Consolidated Accounts. I concluded that, for 2019/20, the likely amount of error and fraud incurred in Carer's Allowance is not significant enough to influence the economic decisions of the users of the accounts.



## Capital borrowing

**15.** Under the terms of the Scotland Act 2016, Scottish ministers can borrow up to £3 billion for capital purposes, with an annual borrowing limit of 15 per cent (£450 million) of the overall borrowing cap. In 2019/20, the Scottish Government borrowed £405 million. This was less than the £450 million outlined by Scottish ministers as part of the 2019/20 Scottish budget. The loan will be repaid to the National Loans Fund across two separate timescales; £200 million over 20 years and £205 million over 25 years. Both are in line with timescales outlined in the Fiscal Framework.

**16.** The Scottish Government reported that 2019/20 borrowing was used to support its overall capital programme although no details of how this applied to specific projects is included within the Consolidated Accounts. This is the fifth year that the Scottish Government has used its capital borrowing powers and, as at 31 March 2020, the total principal level of capital borrowing outstanding was £1,071.6 million, with interest of £144.6 million applying over its remaining life.

**17.** Details of the overall loan, repayments and interest payments are outlined on page 27 of the Consolidated Accounts. The Scottish Government's borrowing and associated repayments are made via the Scottish Consolidated Fund (SCF). Borrowed amounts and repayments are made between the SCF and HM Treasury with the corresponding adjustments made to funding received by the Scottish Government from the SCF. This means there is no associated liability disclosed in the Statement of Financial Position within the Scottish Government's Consolidated Accounts. Details of the amount of capital borrowing and the associated liability are set out within a separate account prepared for the SCF.

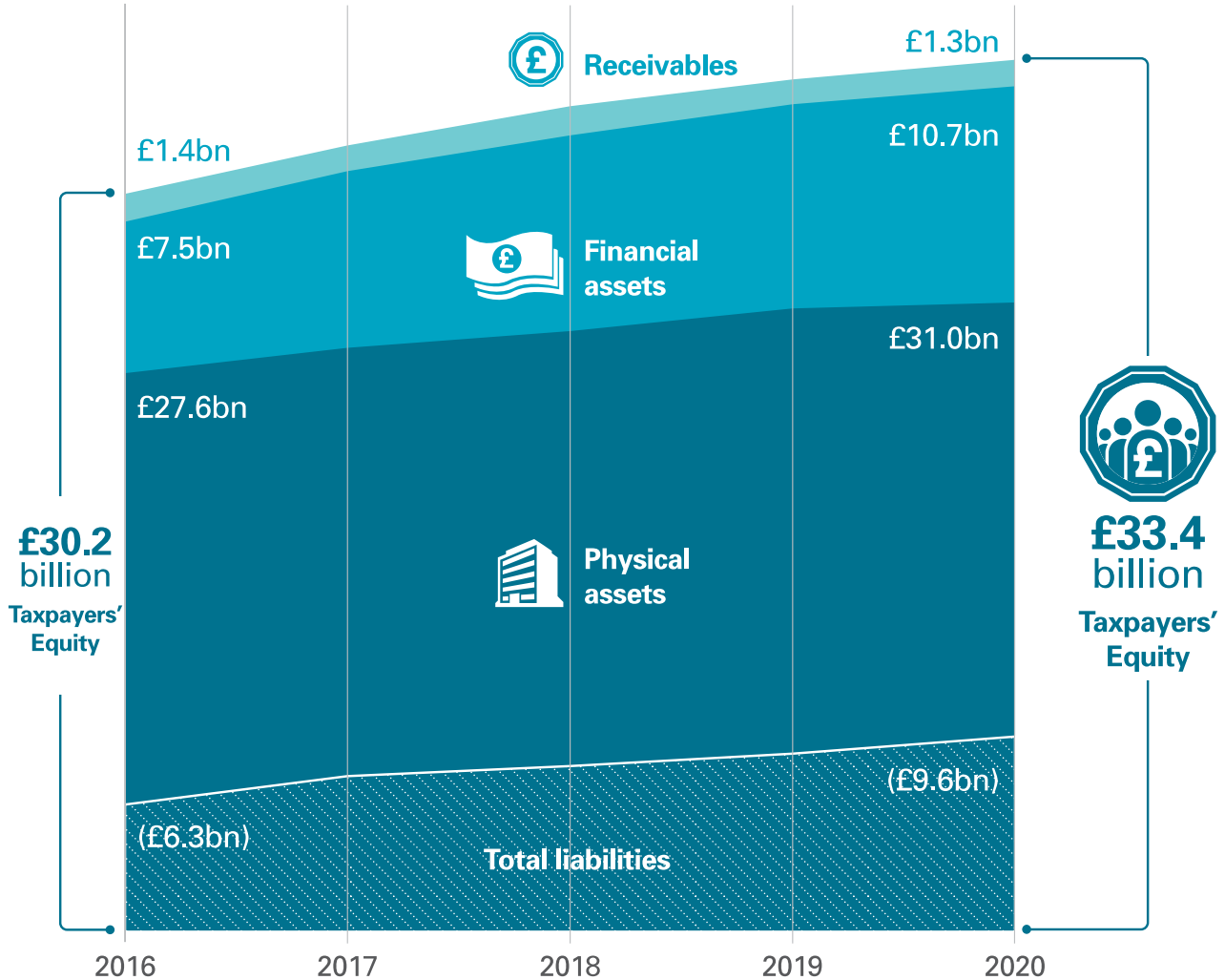
## Overall financial position

**18.** The Consolidated Statement of Financial Position (page 86) is one of the primary financial statements in the Consolidated Accounts. It summarises what is owned and owed by the core Scottish Government and those public bodies within the consolidated boundary. This shows taxpayers' equity – an accounting measurement of the amount of taxpayers' money applied that has continuing public benefit. It shows how much of this has arisen from the application of parliamentary funding (arising from the Scottish Block Grant, capital borrowing and devolved taxes) and how much resulted from changes in the value of physical assets over time.

**19.** The key items in the Statement of Financial Position over the last five financial years are summarised in Exhibit 2. Taxpayers' equity has increased in each of the last five years, largely due to an increase in physical assets (such as property and roads) and financial assets (such as loans and investments). Total liabilities (such as payments for private-financed projects) have increased from £8.8 billion to £9.6 billion. It is important to note that the position does not reflect all the assets and liabilities of the Scottish public sector. Key assets and liabilities are excluded such as capital borrowing, local government borrowing, and all public sector pension liabilities funded from the Scottish budget.

**Exhibit 2**

**The Scottish Government's year-end financial position, 2016 - 2020**



Source: Consolidated Accounts, 2015/16 to 2019/20.

**Financial support to private companies**

**20.** In recent years, the Scottish Government has taken a direct role in providing financial support to private companies in addition to support provided through its enterprise agencies; Scottish Enterprise and Highlands and Islands Enterprise.

**Prestwick Airport**

**21.** In November 2013, the Scottish Government purchased Prestwick Airport for a nominal price of £1 with the stated aim of protecting jobs and safeguarding what it considered to be a strategic infrastructure asset. During 2019/20, the Scottish Government provided a further £3.5 million of loans to the airport taking the total level of loan support to £43.4 million as at 31 March 2020. In its 2019/20 annual accounts, Transport Scotland valued this loan at £10 million to reflect expected losses in line with accounting standards.

**22.** In June 2019, the Scottish Government announced that the sale of Prestwick Airport was being progressed, in keeping with its long-term objective that the airport should be returned to the private sector. In October 2020, the Cabinet

Secretary for Transport, Infrastructure and Connectivity confirmed to the Scottish Parliament that the preferred bidder, selected earlier in the year, had withdrawn from the process considering the global impact of Covid-19 on the aviation sector. The airport is now in the process of engaging with other interested parties and any timescale for its sale remains unknown.

### Ferguson Marine Engineering Limited

**23.** Over 2017 and 2018, the Scottish Government provided commercial loan facilities totalling £45 million to Ferguson Marine Engineering Limited (FMEL), a shipbuilding and engineering company based in Port Glasgow. The purpose of the loans was to support FMEL's completion of a contract to build two 'dual-fuel' ferry vessels for Caledonian Maritime Assets Limited (CMAL) valued at around £97 million and to improve the prospects of the company and shipbuilding on the Clyde. By April 2019, FMEL had drawn down the full loan facility of £45 million and no extended facilities were provided.

**24.** In August 2019, FMEL entered administration which led to the Scottish Government acquiring the business in December 2019 following a review of bids by the administrator. Following administration, a new company was established, known as Ferguson Marine (Port Glasgow) Holdings Limited (FMPG). FMPG is a company wholly owned by Scottish ministers established under the Companies Act 2006. It does not fall within the boundary of the Scottish Government's Consolidated Accounts and has appointed its own auditors for financial year 2019/20. In 2019/20, the Scottish Government spent £6 million on funding the cost of Ferguson Marine in administration prior to public ownership, in addition to £11 million in grant funding as a public body. This expenditure is included within the Transport, Infrastructure and Connectivity portfolio. The valuation of loans provided to Ferguson Marine remained at nil within the 2019/20 Consolidated Accounts.

**25.** In September 2019, the Scottish Government established a new Ferguson Marine Response Division to oversee the transfer of FMPG into public ownership and oversee options for the future of the company. Looking ahead it will be important for the Scottish Government to clearly outline and maintain effective sponsoring arrangements for FMPG, including clear roles and responsibilities as well as clarity over future funding arrangements and expectations of organisational performance and delivery of outcomes.

**26.** On 30 October 2019, the Scottish Parliament's Rural Economy and Connectivity Committee agreed to hold an inquiry into the construction and procurement of ferry vessels in Scotland including the costs and timetable associated with the completion of the two ferries for CMAL. The Committee reported its findings on 9 December 2020, and I will consider their request for further audit work in this area in due course.

### Burntisland Fabrications Limited

**27.** Over 2017 and 2018, the Scottish Government provided commercial loan facilities of up to £51 million to Burntisland Fabrications Limited (BiFab), a fabricator of oil, gas and offshore wind structures. Of this, £41 million was available to support the completion of key contracts for the Beatrice Offshore Wind Farm with a further £10 million available to BiFab to support business restructuring following the completion of the contracts. Included in the agreement with BiFab is a provision for the loans to be converted to an equity stake, not exceeding a 38 per cent shareholding in BiFab.

**28.** At the end of March 2019, BiFab had drawn down £37.4 million of the £41 million loan facility. This was subsequently converted to equity by the Scottish Government representing a total equity stake of 32 per cent. In the 2019/20 Consolidated Accounts, the Scottish Government's stake was valued at nil to reflect expected losses in line with accounting requirements.

**29.** During 2019/20, BiFab had drawn down £9 million of the £10 million loan facility made available to support business restructuring. The Scottish Government has written this amount off in full in the 2019/20 Consolidated Accounts. On 7 May

2020, the terms of the loan facility were revised and extended to £15 million to cover the company's forecast trading losses. Between May and November 2020, BiFab drew down a further £4.5 million, taking total loans made under this facility to £13.5 million.

**30.** In December 2020, BiFab went into administration due to its current financial position. The Scottish Government stated there was no legal route for either the Scottish Government or the UK Government to provide further financial support to the company in the current situation.

### Lochaber Aluminium Smelter – Liberty Group

**31.** In December 2016, the Scottish Government entered a 25-year financial guarantee relating to the hydro plant and aluminium smelter at Lochaber. This involved the government guaranteeing the power purchase obligations of the smelter if the business does not fulfil its obligations to pay for contracted power. The guaranteed annual amounts vary between £14 million and £32 million over the lifetime of the contract. The Scottish Government receives an annual fee in return for the guarantee which was classed as a financial asset in the Consolidated Accounts. The asset was valued at £21.4 million at the time of agreement in 2016/17. In 2019/20, the asset was valued at 'nil' as a result of an assessment of expected credit losses in line with accounting standards. The calculation of the government's potential exposure to default payments was also updated, resulting in the provision increasing by £3.3 million to £36.7 million.

### The strategic approach to financial interventions

**32.** In my predecessor's report on the 2018/19 audit of the Scottish Government's Consolidated Accounts, she highlighted the need for the Scottish Government to develop a clear framework to outline its approach to financial interventions in private companies. The Scottish Government is developing a series of principles of support for financial interventions. This includes the development of a database which identifies companies of strategic importance to Scotland drawing on qualitative and quantitative information on employment, sector impact and vulnerability. The principles also outline the Scottish Government's consideration of HM Treasury's Green Book which applies five tests to intervention: strategic, economic, financial, commercial and management. The Scottish Government also provided more procedural guidance within the Scottish Public Finance Manual to support Accountable Officers and the decision-making process for potential interventions.

**33.** These are important components of a framework for financial interventions in private companies. The Scottish Government needs to develop this further to outline its approach to risk tolerance, financial capacity and expected outcomes for each case considered. In doing so, it will provide Parliament with the assurance over its strategic objectives in entering any future agreements. This is particularly important as the impact of Covid-19 and EU withdrawal on businesses is likely to increase the expectations and demands on the public sector to provide financial support. It will be essential for the Scottish Government to learn lessons from its experience of recent financial interventions in private companies. It will also be important for the Scottish Government to clearly outline its plans for future investment in private companies to ensure there is greater transparency over financial support provided and the value of public funds committed.

### European Structural and Investment Funds

**34.** The Scottish Government is responsible for managing two European Structural and Investment Funds for the period 2014 to 2020; the European Social Fund (ESF) and the European Regional Development Fund (ERDF). The ESF aims to help people improve their lives by learning new skills and finding better jobs, whereas the ERDF aims to improve regional economic performance and social cohesion.

**35.** In November 2019, the European Commission (EC) placed the ESF programme in suspension after the Scottish Government were unable to resolve all

outstanding issues by this deadline. In January 2020, the EC also placed the ERDF programme into suspension. The Scottish Government cannot make claims for funding to the EC until the issues identified are resolved.

**36.** Suspensions were imposed because of concerns about the implementation of the management and control system. The EC had concerns about expenditure being valid after weaknesses in the nature and extent of verification checks performed by the Scottish Government were identified by the EC appointed auditors. In addition, for ESF, the application of a 40 per cent flat rate in grant claims for staff costs was a misinterpretation of EC regulations and the related expenditure in these claims had to be withdrawn. During this time, lead partners continued to make payments to beneficiaries from their own budgets, and in January 2020, the Scottish Government agreed to resume payments to lead partners on verified claims.

**37.** Under the Withdrawal Agreement, the UK will continue to participate in the Multiannual Financial Framework programmes, like ESF, until it ends in 2023. In the event of no agreement following the end of the transition period in January 2021, the HM Treasury Guarantee will apply. In lieu of recovering funds from the EC, the Scottish Government would instead reclaim from the UK Government. The Scottish Government understands it would need to comply with all relevant EC rules to obtain the HM Treasury Guarantee, so the Scottish Government's work to resolve existing audit issues and exit suspension remains valid.

**38.** As a result of entering suspension, the EC can impose a maximum penalty of up to 25 per cent of the whole programme, which would be in the region of £190 million although the possibility of such a significant amount is low. Any penalty would be subject to negotiation between the Scottish Government and the EC. A contingent liability of £35 million is included in the Consolidated Accounts to reflect the amounts paid by the Scottish Government to lead partners but subsequently withdrawn from declarations to the EC as a result of the suspension.

**39.** The Scottish Government has continued to work with lead partners to resolve the issues and are hopeful that the suspensions will be lifted before the end of March 2021.

## Financial and performance reporting

### Financial reporting

**40.** Following the onset of the Covid-19 pandemic, the Scottish Government postponed its planned May 2020 publication of its third medium-term financial strategy (MTFS). In August 2020, the Cabinet Secretary for Finance informed the Scottish Parliament that this year's MTFS will be published alongside the 2021/22 draft Scottish Budget, which is now planned for January 2021. The introduction of an annual strategy followed a recommendation from the Parliament's Budget Process Review Group in 2017. The strategy aims to provide an assessment of the medium-term outlook for Scotland's public finances as the new financial powers from the Scotland Acts 2012 and 2016 come into effect.

**41.** The Covid-19 pandemic has brought increased uncertainty and potential volatility to public finances over the medium term. There is uncertainty as to how the economic impact of the pandemic will affect devolved tax and social security powers, as well as the wider pressures on the budget from increased demand for services. The move to a later publication date allows the Scottish Government to better reflect the likely impact of the pandemic on public finances including on spending plans and priorities, planned outcomes and options for ensuring financial sustainability.

**42.** Inevitably though, it will mean there is less time for the Parliament to scrutinise the strategy prior to the budget when compared to the timescales of recent years. This will be particularly challenging for Parliament considering the number of significant concurrent risks impacting public finances, both in the short and medium

term and the likely difficult choices required over public spending. There is a need for the strategy to make clearer the links between planned spending options and expected outcomes outlined in the National Performance Framework to aid Parliament's understanding of the financial risks and opportunities emerging from the Covid-19 pandemic.

**43.** In 2016, the Scottish Government committed to producing a consolidated account to cover the devolved public sector in Scotland including total assets, investments and liabilities such as local government borrowing and public sector pension liabilities. In July 2019, the Scottish Government issued a draft account based on 2017/18 financial information to its Audit and Assurance Committee for consultation. Audit Scotland provided observations on the draft account as well as comments on the potential audit requirements depending on the basis on which an account is prepared. The Scottish Government are developing a revised version of the account, based on more up-to-date financial information. Progress in finalising the draft account for audit has been delayed due to the priority given by the Scottish Government to responding to the Covid-19 pandemic and the preparation of the 2019/20 Consolidated Accounts.

**44.** The pandemic and ongoing uncertainty of EU withdrawal pose significant risks to the sustainability of public finances. As a result, there is a need more than ever for a public consolidated account to provide a comprehensive and transparent assessment of the state of Scotland's public finances. This is important for decision-making over the longer term as it will provide information about the impact of past decisions on future budgets, the potential risks to financial sustainability and the scale of assets and liabilities, including those held by publicly owned companies. The Scottish Government should now finalise the format and report publicly when it will produce a draft public consolidated account for audit.

### Performance reporting

**45.** The 2019/20 Consolidated Accounts include a performance report and an accountability report in line with the requirements of the Government Financial Reporting Manual (FRoM). In May 2020, HM Treasury outlined minimum reporting requirements to support public bodies in their preparation of financial statements to reflect the pressures facing them as a result of the pandemic. This included the option to omit certain aspects of performance reporting.

**46.** The Scottish Government's performance report (pages 4 to 29) summarises financial performance for the year, with emphasis on performance against budget. It also contains some specific performance information which is required by current guidance on supplier payment performance, and signposts where more information is available on sustainability and environmental performance. Compared with previous years, the performance report provides more information on major areas of spend during the financial year and has made some minor improvements in linking performance by portfolio to outcomes.

**47.** Overall, performance reporting on the Scottish Government's own progress towards its aims and objectives remains very limited, with users of the accounts directed to other publications and the National Performance Framework to find information. The Scottish Government acknowledges that the report does not provide a complete picture of performance reporting and that more work is required to better link spending with outcomes. This means that the Consolidated Accounts focus on the government's finances and do not report on the performance of individual portfolios or the Scottish Government as a whole. This limits the reader's ability to see the government's own contribution to national outcomes. The Scottish Government needs to quicken the pace of its work to provide a more comprehensive performance report of its own performance. In doing so, it would increase transparency, enhance reporting to the Scottish Parliament and the public, and help strengthen accountability and scrutiny.

## Governance

**48.** A Governance Statement (pages 31 to 51) prepared by the Permanent Secretary is a key feature of the Consolidated Accounts. It forms part of a wider accountability report and summarises how the core Scottish Government organisation is controlled and directed. The statement confirms that it complies with relevant guidance on corporate governance. It also highlights some of the main risks and opportunities for the organisation and any significant internal control issues in 2019/20. I am content that the Governance Statement is consistent with the financial statements and has been prepared in accordance with guidance issued by the Scottish ministers.

**49.** During 2019/20, the Scottish Government strengthened aspects of its governance arrangements including greater clarity on the escalation process between Director General-led assurance meetings and the Scottish Government's Audit and Assurance Committee; an increased focus on risk management at both corporate and directorate levels; and improved corporate reporting on people management. In my predecessor's report on the 2018/19 audit of the Scottish Government's Consolidated Accounts, she highlighted the need for the Committee to operate in line with good practice and to provide greater scrutiny and challenge to support the advice and assurances given to the Permanent Secretary.

**50.** I am pleased to report that the Scottish Government has made good progress against these recommendations including the preparation of an annual report to summarise the Committee's own work in the past year. This includes a planned review of its own effectiveness as required by its own terms of reference. In addition, a new chair was appointed to the Committee during the year and a review of its own terms of reference was undertaken and approved in April 2020.

**51.** In March 2020, the Scottish Government responded to the significant emerging risks posed by the Covid-19 pandemic by reassessing and revising its corporate governance arrangements. The changes to corporate governance arrangements were timely and appropriate and provided a structure to enable faster decision-making and information sharing across government directorates and corporate groups. This was particularly critical for those at the forefront of the emergency response. The work undertaken over the last 18 months by the Government in developing its corporate resilience arrangements in anticipation of EU withdrawal provided a good basis for the rapid response demonstrated at the pandemic outbreak. Nevertheless, the scale and pace of response since March continues to place considerable strain on staff wellbeing across the organisation combined with existing staffing capacity pressures and the challenges of remote working.

**52.** I welcome the openness with which the Scottish Government has engaged with me, my predecessor and Audit Scotland on these arrangements. Looking ahead, it will be important for the Scottish Government to keep these arrangements under review to ensure they remain fit for purpose, particularly during this extended period of uncertainty.

**53.** Last year, the Scottish Government took initial steps to improve the effectiveness of its role in sponsoring public bodies. The Scottish Government has an important leadership role in supporting public bodies to better understand the risks and challenges facing them. In June and July 2019, the Scottish Government held workshops, attended by Audit Scotland, to discuss common themes and issues among sponsors. These covered governance and accountability, risk management and relationships. They highlighted the need for greater engagement on shared issues and risks between the Scottish Government and its public bodies.

**54.** During 2020, the Scottish Government planned several activities to improve sponsorship arrangements, including the establishment of a governance hub module on sponsorship training, accreditation for sponsors and workshops and networking events for Accountable Officers and sponsors. I welcome these developments; however, I note that progress in implementing many of these plans

has largely paused due to Covid-19. It will be important for the Scottish Government to agree a new timetable for when it expects to implement these plans and how it expects to monitor improvements.

## UK withdrawal from the European Union

**55.** The ongoing uncertainty over the terms of the UK's withdrawal from the European Union (EU) placed considerable pressure on the Scottish Government's capacity and capability during 2019/20. The Scottish Government's planning to mitigate the effects of EU withdrawal has centred on trade (including the ability for Scottish businesses to compete in other markets) and legislation (including the volume of secondary legislation required to be considered by the Scottish Parliament) and predominantly focuses on the potential impact of a 'no' deal or a 'very limited' deal beyond 31 December 2020. The emergence of the Covid-19 pandemic placed significant further pressures on the Government's preparations as key staff, with experience in resilience planning, were diverted to support the Government's response in this area.

**56.** Overall, the Scottish Government's planning for EU withdrawal continues to be reasonable and proportionate given the uncertainty over the likelihood and nature of a deal between the UK Government and the EU and the subsequent detailed implications of withdrawal. The significant risks facing the Scottish Government extend well beyond 31 December 2020 and combined with the economic recovery required from the impact Covid-19 pandemic, they are expected to dominate the public sector in Scotland for years to come. In addition to addressing the short-term risks of EU withdrawal, with or without a trade deal, the Scottish Government will need to ensure it is able to transition effectively to any new partnership or trade arrangements, new funding mechanisms and legislation, as well as responding to any adverse impacts on the Scottish economy and public finances.

## Conclusion

**57.** The Consolidated Accounts remain a critical component of the Scottish Government's accountability to the Scottish Parliament and the public. They are particularly important during these times of significant challenges and uncertainty. The Covid-19 pandemic and the UK's withdrawal from the EU represent the two biggest risks facing the Scottish Government. Their combined uncertainty and impact on public finances and the economy means the Scottish Government will need to manage further significant turbulence over the next few years. Strong financial management and good governance will be essential to ensure the Scottish Government can minimise the effects of the pandemic. Effective workforce planning will be critical to ensuring staff wellbeing improves and that capacity is in place to deal with the pace and scale of activity.

**58.** My audit work has highlighted areas for improvement to help support the Parliament and the public in their scrutiny of public finances during these uncertain times. I recognise that it has been difficult for the Scottish Government to make significant progress against existing recommendations in recent months. Looking ahead, the Scottish Government should:

- develop further its approach to financial interventions in private companies to consider risk tolerance, financial capacity and expected outcomes for each case considered. It should clearly outline its plans for future investment in private companies to ensure there is greater transparency over financial support provided and the value of public funds committed.
- make clearer the links between planned spending options and expected outcomes outlined in the National Performance Framework through its medium-term financial strategy to aid Parliament's understanding of the financial risks and opportunities emerging from the Covid-19 pandemic.



- quicken the pace of its work to provide a more comprehensive performance report of its own performance. In doing so, it would increase transparency, enhance reporting to the Scottish Parliament and the public, and help strengthen accountability and scrutiny.
- finalise the format and report publicly when it will produce a draft public consolidated account for audit.
- agree a new timetable for when it expects to implement sponsorship improvement plans and how it expects to monitor progress.

# Appendix 1

## The Scottish Administration budget and outturn, 2019/20

Budget	Actual (£m)	Budget (£m)	Over/(Under)spend (£m)
<b>Scottish Government Consolidated Accounts</b>	<b>39,385</b>	<b>38,716</b>	<b>669</b>
National Records of Scotland	42	44	(2)
Office of the Scottish Charity Regulator	3	3	-
Scottish Courts and Tribunals Service	141	141	-
Scottish Fiscal Commission	2	2	-
Revenue Scotland	9	9	-
Food Standards Scotland	18	19	(1)
Scottish Housing Regulator	4	4	-
NHS and Teachers' Pensions	4,352	5,140	(788)
<b>Total Scottish Administration</b>	<b>43,956</b>	<b>44,078</b>	<b>(122)</b>

# The 2019/20 audit of the Scottish Government Consolidated Accounts

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