

Annual Audit Report for Scottish Futures Trust Limited

Financial year ended 31 March 2023

**Prepared for those Charged
with Governance and the
Auditor General for Scotland**

November 2023 FINAL



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect Scottish Futures Trust Limited or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive Summary

This table summarises the key findings and other matters arising from the external audit of Scottish Futures Trust Limited (SFT) and the Group and the preparation of the financial statements for the year ended 31 March 2023 for those charged with governance (Audit Committee) and the Auditor General for Scotland.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Group and SFT's financial statements give a true and fair view of the financial position of the group and SFT;
- the Group and SFT's financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (FReM) and Companies Act 2006;
- the Group and SFT's financial statements and the audited parts of the Remuneration Report and Staff Report have been prepared in accordance with the requirements of the 2022/23 Financial Reporting Manual (FReM) and directions made thereunder by the Scottish Ministers;
- In all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers; and
- the Performance Report and Governance Statement is prepared in accordance with the FReM and is consistent with the financial statements.

We are required to report whether other information published together with the audited financial statements in the Annual Report and Accounts is consistent with the financial statements and has been prepared in accordance with the requirements.

Our audit work was completed during June-July. Our findings are summarised on pages 6 to 28. Subject to the conclusion of outstanding matters listed below, we have not identified any adjustments to the financial statements that have impacted on the Company or the Group's reported financial position, in the unaudited accounts.

Adjustments are detailed in Appendix 1. We have also raised recommendations for management as a result of our audit work in Appendix 2 and 3. Our follow up of recommendations from the prior year's audit are detailed in Appendix 4.

Our work is substantially complete and there are no matters of which we are aware that would impact on us not issuing an unmodified audit opinion as planned, subject to the following outstanding matters;

- Receipt of management representation letter {– see separate agenda item}; and
- We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team in completing the external audit.

Introduction (1)

Scope of our audit work

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

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

This Annual Audit Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit Committee in August 2023.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Responsibilities

Scottish Futures Trust has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts in accordance with proper accounting practices. Scottish Futures Trust is also responsible for compliance with legislation, and establishing arrangements over governance, propriety and regularity that enable it to successfully deliver its objectives.

Our responsibilities as independent auditors, appointed by the Audit Scotland, are set out in the Code, supplementary guidance, and International Standards on Auditing in the UK.

The recommendations 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. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve officers from their responsibility to address the issues raised and to maintain an adequate system of control.

Audit approach

Our audit approach was based on a thorough understanding of the group business and is risk based, and in particular included:

- An evaluation of the group's internal control environment, including its IT systems and controls;
- An evaluation of the component of the group based on a measure of materiality considering each as a percentage of the group's gross assets to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of Scottish Futures Trust Investments Ltd was required, which was completed by Grant Thornton UK LLP; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Adding value through our audit work

We aim to add value to Scottish Futures Trust throughout our audit work by

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

Introduction (2)

Wider scope

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code requires auditors to consider Scottish Future Trust's arrangements in respect of financial management, financial sustainability, vision, leadership and governance and use of resources to improve outcomes.

In our External Audit Plan for the year ended 31 March 2023 we documented our assessment of the wider scope risks and planned audit work. At the planning stage we did not identify any significant risks.

We outline our work undertaken in response to the arrangements in place and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out. We have not identified any significant risks from our review carried out subsequent to our planning and risk assessment.

Further details of the work undertaken are outlined on pages 29 to 37.

We have raised one recommendation for management as a result of our audit work on wider scope. These are set out in Appendix 3.

Audit of the annual report and accounts

Our approach to the audit of the financial statements



Overall materiality

Group: £209,011 which represents 1.75% of the group's gross expenditure;

Company: £179,000, which represents 1.5% of the company's gross expenditure.

There is a change in materiality values since our final audit plan was communicated to you on 19 June 2023, as the final expenditure for 2022/23 was used as the basis of the calculation. The percentage chosen remains unchanged.

Key audit matters

Key audit matters were identified as:

- Management override of controls (Group and Company);
- Risk of fraud in expenditure recognition (Group and Company);
- Valuation of the net pension liability (Company); and
- Valuation of Investments (Group); and
- Application of Financial Reporting Manual (FRM) financial reporting framework (Group and Company).

Internal control environment

In accordance with ISA requirements, we have developed an understanding of Scottish Futures Trust control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. In accordance with ISAs, over those areas of significant risk of material misstatement we consider the design of controls in place.

However, we do not place reliance on the design of controls when undertaking our substantive testing. We identified no material weaknesses from this work which would have caused us to alter the planned approach as documented in our plan.

Recap of our audit approach and key changes in our audit strategy

We have not identified any changes in our approach since our Audit Plan presented to you on 9 May 2023. The risks identified remain the same.

Status of Audit Work

Our audit team and the finance team continue to work together to complete the audit.

As an audit team we have focused on concluding our work on the key audit matters, the significant audit risks and the significant classes of transactions we have identified in our scoping. These are the areas of the accounts that are, in our view, at greater risk of material misstatements, with a potential to impact our auditor's opinion.

Our work is subject to the following closing procedures which necessarily take place within the concluding stages of the audit:

- final senior engagement team and quality review;
- receipt of management representation letter {sent as a separate document}.

Audit quality is important to us, and it is important as auditors that we take a step back to consider all our audit evidence and the quality of our audit work on file on completion. This includes sufficient documentation of our key auditor judgements and conclusions.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our audit approach was set out in our audit plan.

- We reviewed and updated our assessment of materiality from planning based upon your 2022/23 draft financial statements and concluded that materiality is £209,011 for Group representing 1.75% of consolidated group gross expenditure and £179,000 for the Company representing 1.5% of Scottish Futures Trust Ltd gross expenditure.
- Performance materiality was set at £125,406 for the Group (Company only: £107,400), representing 60% of our calculated materiality.
- We report to Officers (Management) any difference identified over £10,500 (Group) and £9,000 (Company)
- We applied a lower materiality threshold for disclosures within the Remuneration Report to Senior Officer and Board Member Remuneration Tables due to the sensitive nature of this disclosure, the lower materiality applied to this area was £25,000).

Component materiality

- Where audit work on other components is being performed using component materiality, this has been set at £165,065 with the component materiality used reflecting the contribution of that component to the group.

Detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Scottish Futures Trust Ltd and its Group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2022/23 Code of Audit Practice.
- We enquired of Senior Officers and the Audit Committee through email confirmation, concerning Scottish Futures Trust's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Audit Committee through email confirmation, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of Scottish Futures Trust and its group financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We have reviewed the principal risks to journal entries that could alter Scottish Futures Trust's financial performance for the year and the risk of fraud in expenditure recognition. Our audit procedures in relation are documented within our response to the significant risk of management override of controls below.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in certain account balances and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - Scottish Futures Trust and its group operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - Scottish Futures Trust's control environment, including the policies and procedures implemented by Scottish Futures Trust to ensure compliance with the requirements of the financial reporting framework.

Group audit approach

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The table below summarises our final group scoping, as well as the status of work on each component.

Component	Significant	Scope – planning	Scope – final	Auditor	Status	Comments
Scottish Futures Trust Ltd	Yes			Grant Thornton UK	Green	Our work is complete with regards to the audit of Scottish Futures Trust Ltd. Our findings are summarised on pages 6 - 27.
Scottish Futures Trust Investments Limited	Yes			Grant Thornton UK	Green	Findings in relation to the audit of SFTi Ltd can be found on the following page.



Full scope audit procedures will be performed to component materiality by the group audit.

Audit of specified financial statement line items to component materiality by the group audit team.

Out of scope components are subject to analytical procedures performed by the Group audit team to group materiality.

Green

Green - planned procedures are substantially complete with no significant issues outstanding.

Amber

Amber - planned procedures are ongoing/subject to review with no known significant issues.

Red

Red - planned procedures are incomplete and/or significant issues have been identified that require resolution.

Group audit approach (2)

Component	Comments
Scottish Futures Trust Investments Limited	<p>The audit of SFTi is complete. Two material matters were identified resulting in audit adjustments which impact the group financial statements (Investment share capital and subordinated debt)</p> <p>Investments - share capital</p> <p>The accounting policy of measuring the investments at fair value is correct, however, as the discount rate is not a market rate, the component audit team did not believe that the valuation complied with the requirements of IFRS9 . The audit team challenged management on why a current market rate would not be appropriate as, whilst it may not be their intention to sell, there is nothing which prohibits the sale of these investments. Management agreed with this assessment and have revisited the valuations for each of the 2023, 2022 and 2021 year ends and have adjusted the balances to reflect the use of an appropriate discount rate which was deemed to be 8.5% for 2023 and 7% for each of 2022 and 2021.</p> <p>The audit adjustment made to SFTi Ltd has resulted in a reduction of the value of investments of share capital in the Group Statement of Financial Position by £63,290 (2022/23), £17,825 (2021/22) and increase in value of £591,337 (2020/21). The corresponding impact has resulted in a loss on value of share capital within the Group Statement of Comprehensive Net Expenditure of £63,290 (2022/23), £17,825 (2021/22) and gain on value of share capital of £591,337 (2020/21).</p> <p>Investments – subordinated debt</p> <p>A review performed by the component audit team and management concluded that the subordinated debt held by SFTi would fail the solely payments of principal and interest test under IFRS 9 and therefore should be held at fair value rather than amortised cost.. Management prepared a fair value calculation for each of the 2023, 2022 and 2021 year ends to determine the fair value of the subordinated debt. These figures have then been used in the financial statements as the prior year has been restated.</p> <p>The audit adjustment made to SFTi Ltd has resulted in a reduction of the value of investments of subordinated debt in the Group Statement of Financial Position by £2,910,464 (2022/23), £250,954 (2021/22) and increase in value of £5,803,956 (2020/21). The corresponding impact has resulted in a loss on value of subordinated debt within the Group Statement of Comprehensive Net Expenditure of £2,910,464 (2022/23), £250,954 (2021/22) and gain on value of subordinated debt of £5,803,956 (2020/21).</p> <p>Tax charge</p> <p>As a result of the audit adjustment made to the valuation of investment for current and prior years this has resulted in an adjustment of gain and loss of fair value of investments in previous years impacting of the profit for the entity and the resultant tax charge.</p> <p>The review of the tax implications of these adjustments has been reviewed by the component audit and material adjustments have been made to the Group taxation on ordinary activities and corresponding tax liability.</p> <p>The audit adjustment made to SFTi Ltd has resulted in an increase in tax expense and tax liability of £206,769 (2022/23), £82,472 (2021/22) and £133 (2020/21).</p>

Overview of audit risks

The table below summarises the key audit matters, significant and other risks discussed in more detail on the subsequent pages.

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Key audit matter	Level of judgement or estimation uncertainty	Testing approach	Findings
Management override of controls	Significant	↔	✓	✓	Low	Substantive	● Green
Risk of fraud in expenditure	Significant	↔	✓	✓	Medium	Substantive	● Green
Application of Financial Reporting Manual (FReM)	Significant	↔	✗	✓	Low	Substantive	● Green
Valuation of the pension fund net liability	Significant	↔	✗	✓	High	Substantive	● Amber
Valuation of Investments	Significant	↔	✗	✓	High	Substantive	● Amber

↑ Assessed risk increase since Audit Plan
 ↔ Assessed risk consistent with Audit Plan
 ↓ Assessed risk decrease since Audit Plan

Green - Not considered likely to result in material adjustment or change to disclosures within the financial statements
Amber - Potential to result in material adjustment or significant change to disclosures within the financial statements
Red - Likely to result in material adjustment or significant change to disclosures within the financial statements

Significant risks and Key Audit Matters (1)

Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the External Audit Plan.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group and Company's financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

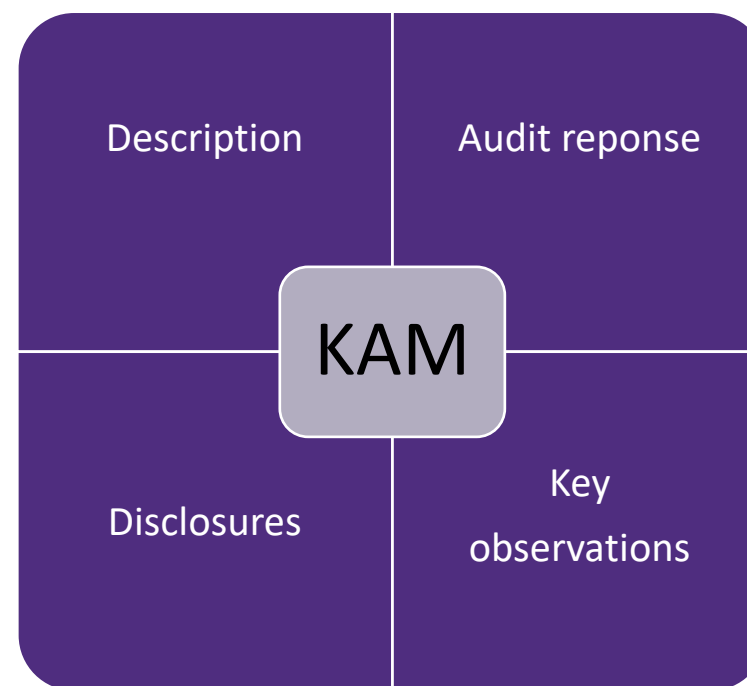
These matters included those that had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Other risks

Other risks are, in the auditor's judgment, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.



Significant risks and Key Audit Matters (2)

Other significant risks identified in our Audit Plan	Risk relates to	Commentary
<p>Management override of controls</p> <p>As set out in ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity's internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions.</p>	Group and SFT Ltd	<p>In response to the risk highlighted in the audit plan we carried out the following work:</p> <ul style="list-style-type: none"> • Documented our understanding of and evaluated the design effectiveness of management's key controls over journals; • Analysed your full journal listing for the year and use this to determine our criteria for selecting high risk journals; • Tested the high risk journals we have identified; • Gained an understanding of the critical judgements applied by management in the preparation of the financial statements and considered their reasonableness; • Gained an understanding of the key accounting estimates made by management and carried out substantive testing on in scope estimates. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions <p>Our results</p> <p>Our testing of journals to date has identified two control weaknesses:</p> <ul style="list-style-type: none"> • Journals can be authorised and approved the same individual, regardless of the amount being posted. Due to the size of the finance team, finance team members often post and approve their own journals, this creates a risk that inappropriate journals could be posted without being detected through review. The organisation does have other mitigating controls in place to reduce this risk including review of monthly financial outturns against budget. We have raised a control recommendation in line with best practice guidance to further mitigate the risk raised. • General ledger periods for previous periods have not been closed in a timely manner. After the end of a reporting period (usually monthly) the general ledger should be closed for that period to mitigate the risk of journals being back posted to an incorrect period. We identified through our walkthrough that journals could be back posted to previous periods due to the fact that the period had not been closed on the ledger in a timely manner. Controls should be put in place to ensure general ledger periods are closed on a timely basis after ledger adjustments have been finalised to mitigate the risk of back posting journals into incorrect periods. <p>We reviewed the GL to identify any journals back posted into previous years and did not identify any.</p> <p>Control recommendations in relation to the above have been raised within the Action Plan in Appendix 2. Our testing of journals has not identified any inappropriate or fraudulent journal postings in the financial year.</p>

Significant risks and Key Audit Matters (3)

Other significant risks identified in our Audit Plan	Risk relates to	Commentary
<p>The revenue cycle includes fraudulent transactions</p> <p>As set out in ISA (UK) 240 (Revised May 2021) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>(rebutted)</p>	<p>Group and SFT Ltd</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the SFT Ltd and the Group, we have determined that the risk of fraud arising from revenue recognition for all revenue streams can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited due to the majority of revenue received being grant funding from the Scottish Government. <p>Therefore we do not consider this to be a significant risk for the SFT Ltd and the Group.</p> <p>Our results</p> <p>Our work has not identified any material issues in relation to revenue recognition.</p>

Significant risks and Key Audit Matters (4)

Other significant risks identified in our Audit Plan	Risk relates to	Commentary
<p>Risk that expenditure, including operating expenditure and associated creditor balances is not complete (Practice Note 10)</p> <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially where you are required to meet financial targets.</p> <p>We consider this gives rise to the following risks:</p> <ul style="list-style-type: none"> The risk that expenditure, including operating expenditure and associated creditor balances is not complete. <p>These risks arise from the pressure to meet financial targets.</p> <p>We have rebutted this risk in relation to payroll expenditure stream as we deem the opportunity to manipulate completeness of payroll expenditure in a material way to be low.</p>	<p>Group and SFT Ltd</p>	<p>In response to the risk highlighted in the audit plan we carried out the following work:</p> <ul style="list-style-type: none"> Evaluated the design and implementation effectiveness of the accounts payable system. Evaluated the design and implementation effectiveness of your system for recording accruals. Verified that the operating expenses included within the financial statements are complete via review of the reconciliations between the Accounts Payable system and the General Ledger. Searched for unrecorded liabilities by performing a substantive sample test of invoices input on to the accounts payable system post period end. Searched for unrecorded liabilities by reviewing cash payments post period end. <p>Our results</p> <p>Our work carried out has not identified any material issues in relation to this risk.</p>

Significant risks and Key Audit Matters (5)

Other significant risks identified in our Audit Plan	Risk relates to	Commentary
<p>Valuation of the pension fund net liability</p> <p>Scottish Futures Trust Ltd participates in the Lothian Pension Fund, a local government pension scheme. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Scottish Futures Trust Ltd is required to recognise its share of the scheme assets and liabilities in its Statement of Financial Position. As at 31 March 2023 the Company recorded a pension fund asset of £7.243 million within the draft statement of accounts.</p> <p>The company's actuary Hymans Robertson provide an annual IAS 19 actuarial valuation of Scottish Futures Trust's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme's gross assets and gross liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme net liability/asset could be materially misstated within the financial statements. This risk is focussed on the appropriateness and reasonableness of the underlying assumptions adopted by the actuary and the suitability of these for the company.</p>	Group and SFT Ltd	<p>In response to the risk highlighted in the audit plan we carried out the following work:</p> <ul style="list-style-type: none"> • Obtained an understanding of the processes and controls put in place by management to ensure that the pension fund net liability/asset is not materially misstated and evaluate the design of the associated controls; • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • Assessed the accuracy and completeness of the information provided by SFT to the actuary to estimate the liability; • Tested the consistency of the pension fund net liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as an auditor's expert) and performing any additional procedures suggested within the report. <p>(See next slide for our results)</p>
<p>We identified the defined benefit pension scheme valuation as one of the most significant assessed risks of material misstatement due to error.</p>		

Significant risks and Key Audit Matters (6)

Other significant risks identified in our Audit Plan

Risk relates to **Commentary**

Valuation of the pension fund net liability (continued)

Group and SFT Ltd

Our results

- Local Government Pension Scheme (LGPS) Net Asset Position

Due to a significant increase in the discount rate from the prior year, the actuary has determined a reduction in the pension liability which has resulted in a pension asset for staff included within the LGPS. The amount of any net defined benefit asset that an entity can recognise is limited to a ceiling which is the present value of those future benefits, this is covered under *IFRIC 14- The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

This is a national issue that is new and complex and therefore requires consideration by a significant number of admitted bodies.

SFT have engaged with Hymans Robertson to undertake the IFRIC 14 calculation for the LGPS pension asset. This has resulted in a ceiling cap to be applied of £2.768m. The draft accounts currently reflect a LGPS asset position of £7.243m therefore an adjustment of £4.475m has been made to the draft accounts to reduce the pension asset for LGPS within the statement of financial position.

An additional disclosure has been made to the key sources of judgement and estimation uncertainty note to reflect the key assumptions and judgements made by the actuary in calculating the asset ceiling cap.

- Pension Liability

Upon review performed of the accounts we identified that a pension asset had been recognised alongside an equal and opposite pension liability. Upon testing of the pension liability we identified that a valid pension asset existed however no pension liability should have been disclosed for 2022/23. We reviewed previous years and identified that accrued income in respect of pension liability had been recognised to offset the pension liability recognised.

We consulted with our technical team who agreed that accrued income to offset pension liability in previous years and deferred income to offset a pension asset for current year was not appropriate accounting treatment in line with IAS19. Management therefore have amended the current year accounts to remove the deferred income in respect of pension liability and restate prior year comparators to remove the accrued income in respect of pension liabilities. A separate Pension Reserve has been created to identify the net pension position at each year end.

Significant risks and Key Audit Matters (7)

Other significant risks identified in our Audit Plan	Risk relates to	Commentary
<p>Application of Financial Reporting Manual (FReM) financial reporting framework</p> <p>As part of the adoption of the new Framework Agreement, SFT Ltd has moved from statutory accounting under IFRS to statutory accounting under the FReM, as part of the requirement to adhere to the Scottish Public Finance Manual (SPFM). The new Framework Agreement which replaces the previous Management Statement and Financial Memorandum (MSFM) was approved by the SFT Board in November 2022. SFTi Ltd as a material subsidiary will continue to report under IFRS however upon consolidation consideration will be required to assess the impact of applying the FReM to ensure the group accounts apply with the FReM financial reporting framework. Management has employed Azets to assist with the restatement of prior year opening balances.</p> <p>There is an inherent risk of error where new frameworks are introduced which can impact the accounting treatment of a number of balances and transactions as well as accounting policies.</p> <p>Due to the increased risk of error in applying a new financial reporting framework we have considered this to be a significant risk to the financial statement audit.</p>	Group and SFT Ltd	<p>In response to the risk highlighted in the audit plan we carried out the following work:</p> <ul style="list-style-type: none"> • Obtained an understanding of the processes and controls put in place by management to ensure that opening balances have been appropriately restated, accounting policies have been reviewed and consolidation procedures for the group have been reviewed to ensure compliance with the FReM • Performed opening balance testing on material restated balances • Performed review of consolidation of group accounts to gain assurance balances and transactions have been consolidated in line with the FReM financial reporting framework. • Performed a disclosure checklist review to ensure the accounting have been prepared in accordance with FReM requirements <p>Our results</p> <p>As the FReM is based on IFRS this is largely consistent with the approach undertaken in previous years however under the FReM there are some public sector adaptations to IFRS. The most significant impacting SFT is that Grant-in-aid is provided to match the recipient's cash needs and is accounted for on a cash basis within any exceptions requiring agreement with sponsoring department. Funding is not recognised as Income. Instead this funding is recognised as cash through the Reserves and used to monitor the body's performance against funding levels. These are defined as Department Expenditure Limits.</p> <p>Additional disclosures are also required in relation to the Annual Report and Remuneration Report as a result of transferring to the FReM.</p> <p>Our work carried out has not identified any material issues in relation to this risk.</p>

Significant risks and Key Audit Matters (8)

Other significant risks identified in our Audit Plan	Risk relates to	Commentary
<p data-bbox="51 347 409 379">Valuation of Investments</p> <p data-bbox="51 437 645 778">The Scottish Government grants SFT capital funds which SFT grants on to SFTi for investment in subordinated debt and share capital in special purpose vehicles and working capital in hub company's. The Scottish Government also provides repayable grant to SFT which SFT then grants onto SFTi for investment in subordinated debt and share capital in special purpose vehicles.</p> <p data-bbox="51 820 645 1008">You value your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.</p> <p data-bbox="51 1018 645 1206">Valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved (PY: £16m) and the sensitivity of this estimate to changes in key assumptions.</p> <p data-bbox="51 1248 645 1353">We therefore have identified valuation of investments as a significant risk to the group financial statements.</p>	Group	<p data-bbox="824 347 1939 379">In response to the risk highlighted in the audit plan we carried out the following work:</p> <ul data-bbox="824 389 2161 689" style="list-style-type: none"> <li data-bbox="824 389 2161 459">• Evaluated management's processes for valuing investments and gained an understanding over the valuation process <li data-bbox="824 469 2161 539">• Reviewed the component auditor file and testing performed by the component auditor to gain assurance over the value of investments contained within the consolidated group accounts. <li data-bbox="824 549 2161 651">• Reviewed workings to calculate the fair value of equity investments held by SFTi to ensure these are accurate. We also reviewed the assumptions used in the fair value calculation to ensure these are reasonable. <li data-bbox="824 660 2161 689">• We reviewed managements expected credit loss assessment in relation to financial assets. <p data-bbox="824 730 990 762">Our results</p> <p data-bbox="824 804 2161 986">The audit of SFTi and the valuation of investments is complete. Material audit adjustments have been processed in relation to the valuation of investments in relation to share capital investments and subordinated debt investments, also resulting in a prior period adjustment. Post audit adjustment we are satisfied we have gained material assurance over the investments balance stated within the group financial statements.</p>

Financial Statements – key judgements and estimates (1)

As required in Scottish Futures Trust's Accounting Policies note, officers outline critical judgements in applying accounting policies and in addition, assumptions about the future and other sources of estimation uncertainty. In particular, where estimates and judgements are identified, these should be quantified.

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Orange] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Yellow] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Financial Statements – key judgements and estimates (2)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Right of Use Asset: depreciation including useful economic lives (UEs). – £114,832</p>	<p>SFT recognises depreciation of the right-of-use asset using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term and interest on the lease liability.</p>	<p>We are satisfied based on audit work performed that the estimate of your depreciation charge is not materially misstated.</p>	<p>Green</p>
<p>Accruals</p>	<p>Accruals will be based on actual information on balances owed (eg. invoices) where possible but in some cases estimates may be used where it is not possible to determine the exact amount to be accrued (for example, from an invoice).</p> <p>Where this isn't possible, the assumptions will vary depending on the accrual however business accountants will use their professional judgement in determining an appropriate estimate. This may be based on methods such as pro-rata calculations, for example.</p> <p>Source data used will depend on the nature of the specific accrual but is likely to include amongst other items such as invoices, contracts, timesheets and correspondence with third parties.</p>	<p>We are satisfied based on audit testing of accruals the accruals balance is not materially misstated.</p>	<p>Green</p>

Financial Statements – key judgements and estimates (3)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of the net defined pension liability/asset	<p>The company's net pension asset at 31 March 2023 is £7.243m (PY liability £4.134m). SFT uses Hymans Robertson to provide actuarial valuations of the defined benefit assets and liabilities. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2020. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £12.605m net actuarial gain during 2022/23.</p>	<p>We reviewed your assessment of the estimate considering:</p> <ul style="list-style-type: none"> We have obtained an understanding of the processes and controls put in place by management to ensure the group's pension fund net liability is not materially misstated and evaluated the design of associated controls; We have assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; We have assessed the impact of any changes to the valuation method; We have assessed the accuracy and completeness of information provided by the SFT to the actuary to estimate the liability; We have used PwC as our auditors expert to assess the actuary and assumptions made by actuary. <p>As assumptions applied have been found to be within the appropriate range by our auditor's expert we have determined the overall assessment of assumptions applied as reasonable.</p> <p>We have identified two audit adjustments as a result of our work performed.</p> <ol style="list-style-type: none"> Refer to slide 17 for detail on audit adjustment identified in relation to IFRIC 14 pension asset liability ceiling cap. Refer to slide 17 for detail on audit adjustment identified related to removal of accrued pension income in prior years and moving to pension reserve. There is no net impact on the comprehensive income and expenditure statement for this adjustment. The impact on the Statement of Financial position is to remove the netting off of accrued income for pensions to show this separately within the closing reserves balance as a Pension Reserve. 	<p style="text-align: center;">Green</p> <p>We consider the assumptions used by the actuary to be reasonable however material audit adjustments have been processed to recognise a ceiling cap to comply with the requirements of IFRIC 14.</p> <p>Original assessment was Orange however post audit adjustment we are satisfied estimate is now Green.</p>

Financial Statements – key judgements and estimates (4)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of Investments	<p>The Group hold investments in subordinated debt and share capital in special purpose vehicles and working capital in hub company's. There are a number of complex models and assumptions underpinning the valuation of investment which include level three inputs.</p> <p>Valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved (PY: £16m) and the sensitivity of this estimate to changes in key assumptions.</p>	<p>The audit of SFTi and the valuation of investments is complete. Material audit adjustments have been processed in relation to the valuation of investments in relation to share capital investments and subordinated debt investments, also resulting in a prior period adjustment. Post audit adjustment we are satisfied we have gained material assurance over the investments balance stated within the group financial statements.</p>	<p style="text-align: center;">Green</p> <p>As discussed within page 11 of this report, the component audit team challenged on the appropriateness of the valuation of investments, the accounting policy and its compliance with IFRS 9. The current position that management have taken is that the policy is not appropriate, and the subordinated debt should be held at fair value at each balance sheet date. We note that that the accounting policy has been corrected and therefore going forward this will not be a significant issue.</p> <p>Original assessment was Red however post audit adjustment we are satisfied estimate is now Green.</p>

Other key elements of the financial statements (1)

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts:

Issue	Commentary
Matters in relation to fraud and irregularity	It is Scottish Futures Trust Ltd's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from officers and those charged with governance regarding SFT's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of Scottish Futures Trust's accounting policies, accounting estimates and financial statement disclosures. We have identified disclosure adjustments required to the financial statements which have been detailed in Appendix 2.
Matters in relation to related parties	We have identified one related party transaction that was omitted from the draft financial statements that has been added in the final version. We have also identified one related party that was disclosed however is not considered a related party and therefore has been removed from the disclosure note. We are not aware of any related parties or related party transactions which have not been disclosed in the final version of the accounts.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We have not identified any cases of money laundering or fraud at Scottish Futures Trust Ltd.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We have identified a number of amendments required to be made to the annual report to ensure it is consistent with the financial statements. These have been amended by management and therefore post amendments we are satisfied that other information is consistent with the financial statements and our knowledge obtained in the audit.

Other key elements of the financial statements (2)









Issue	Commentary
Governance statement	We are required to report on whether the information given in the Governance Statement is consistent with the financial statements and prepared in accordance with the requirements of the Financial Reporting Manual (FRoM). No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.
Opinion on other aspects of the annual report and accounts	We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been properly in accordance with the requirements of the Financial Reporting Manual (FRoM), and directions thereunder. We have identified minor changes to the disclosures, which are reported fully in Appendix 2.
Regularity	The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance Accountability (Scotland) Act 2000. In our opinion in all material aspects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
Written representations	A letter of representation has been requested from Scottish Futures Trust Ltd as required by auditing standards. This can be found as a separate item to this report.

Other key elements of the financial statements (3)





Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2022). The Financial Reporting Board recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Company meets this criteria, and so we have applied the continued provision of service approach.</p> <p>In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management’s (senior officer’s) assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management’s (senior officer’s) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Other returns to Audit Scotland	<p>In accordance with the Audit Scotland Planning Guidance, as appointed auditors we have prepared and submitted Fraud Returns and have contributed to shared intelligence for sector meetings and Technical Guidance Notes. There is nothing we need to bring to your attention in this respect.</p>

Other findings – Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas

IT application	Level of assessment performed	ITGC control area rating				Related significant risks/other risks
		Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Dynamics	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	All significant risks
Cascade	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	Valuation of the net pension liability/asset

Assessment

-  **Red** - Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  **Amber** - Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  **Green** - IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  **Grey** - Not in scope for testing

Wider scope conclusions

Wider scope audit (1)

This section of our report sets out our conclusions from our audit work on the wider scope audit dimensions. We take a risk based audit approach to wider scope. Within our audit plan we identified one wider scope risk in relation to financial sustainability.

As part of our ongoing audit planning audit work during the year we have not identified any additional wider scope audit risks.

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
<p>Financial Management</p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	No significant risks identified	<p>SFT's Financial Management Arrangements</p> <p>The financial performance monitoring process is reported to SFT Board at each meeting as an integral part of the budget monitoring process. Variances from budget are clearly explained within the outturn reports with actions identified to resolve any adverse variances. This provides senior management and members with the opportunity to review, challenge and scrutinise financial performance. All budgetary and financial information submitted to board members is produced by the Corporate Finance Team within SFT and reviewed by the Director for Corporate Services for technical accuracy. The finance team within SFT have access to real time information through the finance ledger systems to provide accurate and timely financial monitoring reports. Forecast outturn data is also required to be reported to Scottish Government on a monthly basis. Scottish Futures Trust holds an Internal Controls and Financial Procedures Manual which includes a number of documents to ensure good and proper financial stewardship. This includes; controls and procedures around internal controls, delegated authorities, accounting policies and financial procedures. Individuals involved in the preparation and reporting of financial information are qualified and experienced and held finance positions at the organization for a number of years.</p>	<p>Our review of financial outturn reports during the year did not identify any issues with significant under or overspends and therefore assurance has been provided over the reasonableness of financial forecasting.</p> <p>Financial policies and procedures have been reviewed and we are satisfied the financial regulations are comprehensive, current and promoted within the body .</p> <p>We have not identified any issues regarding the skills, capacity and capability of finance staff within the organisation.</p>

Wider scope audit (2)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Financial Management (continued)		Financial Performance SFT are required to deliver a balanced budget each year. SFT were provided with grant funding of £8.431m by the Scottish Government for 2022/23. The year end outturn was a balanced position. Our review of financial outturn reports throughout the year has not identified any significant variances from budget and therefore reasonable assurance has been obtained over financial management procedures and appropriateness of budgeting.	We have not identified a significant risk in relation to the financial management dimension. Based on our review and work performed, we consider financial management arrangements in place at SFT to be effective and appropriate.
Financial Sustainability Financial sustainability looks forward to the medium to 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	No significant risks identified	Budgeting SFT is mainly funded by grant income from the Scottish Government with some additional investment income. The main streams of expenditure for SFT is staff salaries (which makes up circa 70% of total expenditure) but also incurs corporate costs and external consultancy costs. SFT undertake an annual budget process which forms part of the wider annual business plan process. SFT follow a budget setting timetable which starts in October each year where budget models are rolled forward and discussions take place between the leadership team and Scottish Government regarding core and programme funding requirements. Pay awards and forecast investment income are consolidated into the draft budget and model which is then presented to the board for approval in March each year. A formal budget allocation letter is received by the Scottish Government in April/May with final budgets agreed. SFT undertake scenario planning and sensitivity analysis while preparing budgets on key areas affecting the annual budget such as pay awards . SFT have set a balanced budget for 23/24 with anticipated income of £9.8m split between £8.27m Scottish Government grant funding and £1.5m investment income. Grant funding expected to be received by the Scottish Government in 23/24 is slightly reduced compared to the prior year.	We have not identified any issues regarding the budgeting arrangements in place at SFT. We consider these arrangements to be effective and appropriate.

Wider scope audit (3)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Financial Sustainability (continued)		<p>Medium Term Financial Planning</p> <p>SFT is largely reliant on funding provided by the Scottish Government which makes up circa 80% of total income accounted for by SFT . SFT do not perform any medium to long term financial planning due to the impact of one year funding settlements provided by the Scottish Government. Programmes are undertaken based on the budget agreed as opposed to services/programmes being delivered and funding then having to be identified. This therefore allows SFT to operate in the funding provided to them to achieve a balanced position. Medium to longer term risks are identified within the risk register which includes risks of potential cuts in funding.</p> <p>With a challenging financial climate and uncertain economic future, there is a risk that funding for bodies such as SFT begin to reduce in future years as the government prioritises other areas of public spend. It is therefore more important now than ever that SFT look to implement and consider medium term financial planning.</p> <p>Our discussions with executive team members has highlighted that management do understand the risk that it faces. The current corporate plan is due to complete in 2024, an extension has been agreed with Scottish Government and a new plan is being developed for 2025-2030. As part of the new corporate plan, the board and management team are looking to consider financial forecasting for the medium term against the new plan which has not yet been done before in the organization. The company so far has been able to operate within its allocated budget however there is an acknowledgement that there is a risk that funding could be reduced in future years and therefore plans should be formed in preparation for next years budgeting looking at scenario analysis if programme funding may be cut.</p>	<p>It is important that SFT seeks to embed elements of financial uncertainties within continuous financial planning and reviews including risk and sensitivity analyses to assess and mitigate against the impact of any future risks on delivery of the financial position.</p> <p>SFT are unique in their service delivery and require the support of SG funding in order to finance the projects and programmes that it invests in. The partnership between SG and SFT is key to SFT's programme delivery and will require to continue detailed discussions on the funding requirements needed.</p> <p>We have raised an action plan recommendation for the need for SFT to look to develop medium to longer term financial plans which links to the new corporate plan.</p> <p>Action Plan recommendation raised see Appendix 3.</p>

Wider scope audit (4)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
<p>Vision, Leadership and Governance</p> <p>Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>No significant risks identified</p>	<p>The Board is made up of one non-executive chair, six non-executive directors and SFT’s chief executive. Non-executive directors are appointed by Scottish Ministers in line with the Code of Practice for Ministerial Public Appointments to Public Bodies in Scotland. Board meetings are scheduled six times per annum. The Board has set out powers reserved to it in the document “SFT – Board Reserved Powers” which was adopted at its November 2009 meeting and reviewed annually. Matters reserved for the board include: strategy & planning, oversight of Management, oversight of financial management & capital management, shareholders, ethics & sustainability, and compliance & risk management.</p> <p>The Audit Committee is a sub-committee of the board which is made up of six non-executive directors and is attended by the Director of Corporate Services and the CEO. The audit committee is scheduled to meet three times per annum. Responsibilities of the audit committee include oversight of the external audit and internal audit functions, reviewing internal financial controls, reviewing outcomes reporting, updating/ reviewing the corporate risk register and oversight of ICT security.</p> <p>The Board delegates authority to the CEO to manage the day-to-day affairs of the company and the authority to control the affairs of the Company in relation to all matters other than those responsibilities reserved to the Board in the Statement of Reserved Powers. All responsibilities of delegated authorities in relation to internal control are clearly documented within the “Internal Controls and Financial Procedures Manual”. This manual is revised and approved annually by the Audit Committee.</p> <p>The Board also undertakes an annual review of its performance and succession planning, the next review is due at the September 2023 board meeting. We have obtained evidence of board action plans being reviewed at Board meetings.</p>	<p>Our review of attendance of members at Board meetings and review of board minutes has not flagged any issues. We conclude that the board effectively challenge and scrutinize reports presented and ensure effective decision making.</p> <p>We note the annual review of performance and succession planning undertaken by the Board as an area of good practice of governance where the board continually looks to evaluate its effectiveness on a regular basis and plan for succession.</p> <p>We are satisfied that the governance arrangements are appropriate and operate effectively. Members of the Board are responsible for making strategic decisions. Members also monitor and scrutinise delivery of projects. SFT publishes minutes of each Board committee, their membership and authority to make decisions in order to ensure transparency of decision making.</p>

Wider scope audit (5)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance (continued)		<p>Internal controls</p> <p>Internal audit activity is established by the Group Audit Committee and is undertaken by RSM. Internal audit undertook three reviews during the year of the following areas; Risk Management and Governance (substantial assurance opinion was provided), HR Recruitment and Retention (reasonable assurance opinion was provided) and Budgetary Management (substantial assurance opinion was provided).</p>	<p>Our review of internal audit reports did not highlight any significant weaknesses in controls within the organization for the 2022/23 financial year.</p>
		<p>Risk Management</p> <p>The Group maintains a strategic risk register which is derived from the high-level risks of the projects and programmes in which SFT is involved, along with corporate risks within the Group. Risks are evaluated by considering their probability of occurring along with their potential to impact on the outcomes expected of SFT, the Group's operations and its stakeholders. The risks and management's mitigating actions are reviewed by the Audit Committee at every meeting and by the Leadership Team monthly.</p>	<p>We are satisfied that the key risks have been identified and that the pace of improvement is appropriate to the risks and challenges facing SFT.</p>
			<p>We have not identified a significant risk in relation to the vision, leadership and governance area. Based on our work performed, we consider the governance arrangements in place at Scottish Futures Trust to be effective and appropriate.</p>

Wider scope audit (6)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
<p>Use of Resources to Improve Outcomes</p> <p>Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.</p>	<p>No significant risks identified</p>	<p>Corporate plan and performance reporting</p> <p>SFT’s corporate plan covers the period 2019 to 2024 and is supported by an annual business plan. The plans include how SFT supports the Scottish Government’s National Performance Framework. To demonstrate SFT’s impact on outcomes, SFT have a dedicated website capturing SFT’s impact qualitatively and quantitatively including case studies of the work of SFT.</p> <p>Scottish Ministers and the Board have approved the extension of producing a new corporate plan by one year to allow further conversations with Scottish Government and other stakeholders on what the future landscape for infrastructure related investment is in Scotland. The new corporate plan will cover a five-year period from 2025-2030. As part of the corporate planning cycle, it is expected that SFT will reflect on past achievements, and what lessons can be learned. We will perform a follow up review of the planning and preparatory work undertaken by SFT to prepare for the new corporate plan in subsequent audits.</p>	<p>From our review of the corporate plan, and subsequent monitoring we conclude the plan is clear and the focus on defining and measuring outcomes, is well embedded and recognised as good practice.</p> <p>We have not identified a significant risk in relation to the use of resources to improve outcomes area. Based on work performed, we consider the arrangements in place to be effective and appropriate.</p>

Wider scope audit (7)

Wider scope dimension	Plan risk	Wider scope audit response and findings
<p>Other wider scope areas</p> <p>In addition to the wider scope risks set out above, Audit Scotland's Planning Guidance 2022/23 requires us to consider the following national risks as part of our wider scope work:</p> <ul style="list-style-type: none"> - Climate change - Cyber security. 	<p>We did not identify any specific risks in relation to climate change at Scottish Futures Trust Ltd.</p> <p>We did not identify any specific risks in relation to cyber security at Scottish Futures Trust.</p>	<p>Climate Change</p> <p>Taking into account the long-term trends of climate emergency, digitalisation and demographic change, SFT have one corporate priority which is centred around tackling climate change. We are satisfied that SFT have indicators in place and workstream activities which sets out how the company intend to achieve its targets as well as measuring and monitoring progress. There are appropriate arrangements in place for internal monitoring and progress is reported externally on SFT's outcomes website. We are also satisfied that SFT includes climate change in its narrative reporting which accompanies the financial statements.</p> <p>SFT has considered the impact of climate change on its financial statements. It is determined that climate change will not have a material impact on the company's financial statements given SFT do not hold any significant capital assets and the majority of expenditure relates to staff costs, which we agree with.</p> <p>Cyber Security</p> <p>We have considered risks related to cyber security at Scottish Futures Trust as part during our audit of company's financial statements in line with the guidance issued by Audit Scotland's Digital Audit team. We have not identified any significant issues in relation to cyber security or the arrangements in place at the company in relation to cyber security.</p>

Best Value

The Scottish Public Finance Manual explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. There is ministerial guidance to ensure that arrangements are in place to secure Best Value in public services.

There are seven Best Value characteristics set out within the Manual and they were reviewed as part of our risk assessment.

Audit Scotland require us as auditors to undertake work on the Fairness and Equality characteristic at least once during our audit appointment, we have not undertaken that work during 2022/23.

Best Value work under the new Code of Audit Practice is fully integrated within the annual audit work performed by appointed auditors and their teams. As part of our integrated wider-scope annual audit work, we as appointed auditors use a risk based approach to assess and report whether the company has made proper arrangements for securing Best Value. We have not identified any significant risks in relation to the arrangements in place to secure best value from our work performed over wider scope areas as outlined in this report.

Appendices

1. Audit Adjustments (1)

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p>LGPS Pension Asset</p> <p>Refer to slide 17 for detail on audit adjustment identified. Adjustment relates to IFRIC 14 pension asset liability ceiling cap.</p>	DR IAS19 actuarial gain £4,475	CR Pension Asset £4,475	DR IAS19 actuarial gain £4,475
<p>Right of Use Asset</p> <p>In January 2023 SFT provided notice of termination to your landlord in relation to the lease held for the Thistle Street property. The lease was due to expire in July 2025 however SFT exercised the right to terminate early. Notice in January was provided to vacate the lease in August 2023 however this was extended in August 2023 by an additional two months. SFT subsequently ended the lease agreement in October 2023. As conditions to terminate the lease existed at the year end date an adjustment has been reflected in the final financial statements to reduce the net book value of the asset and a corresponding entry to reduce the lease liability as at 31 March 2023.</p>		CR Right of Use Asset £208,329 DR Lease Liability £208,329	
Overall impact 2022/23	DR £4,475	CR £4,475	DR £4,475

1. Audit Adjustments (2)

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p>Pension Liability</p> <p>Refer to slide 17 for detail on audit adjustment identified.</p> <p>Adjustment relates to removal of accrued pension income in prior years and moving to pension reserve.</p> <p>There is no net impact on the comprehensive income and expenditure statement. The impact on the Statement of Financial position is to removing the netting off of accrued income for pensions to show this separately within the closing reserves balance as a Pension Reserve.</p>		<p>2022/23 Impact:</p> <p>DR Pension Liabilities £7,243</p> <p>CR Pension Reserve £7,243</p> <p>2021/22 Impact:</p> <p>DR Pension Reserve £4,134</p> <p>CR Accrued income in respect of pension liabilities £4,134</p> <p>2020/21 Impact:</p> <p>DR Pension Reserve £7,547</p> <p>CR Accrued income in respect of pension liabilities £7,547</p>	
<p>Repayable Grant</p> <p>Classification adjustment between current and non-current repayable grant from investment in subsidiary.</p>		<p>DR Investment in subsidiary £50</p> <p>CR Trade and other receivables in less than 1 year £50</p>	
Overall impact 2022/23	Nil		Nil

1. Audit Adjustments (3)

Impact of unadjusted misstatements

There are no unadjusted audit misstatements that are above our reporting level. All audit misstatements identified as part of the audit of Scottish Futures Trust Limited have been amended for.

1. Audit Adjustments (4)

Impact of unadjusted misstatements in the prior year

The table below provides details of all unadjusted misstatements brought forward from the 2021/22 audit carried out by your predecessor auditor. Management did not amend the financial statements for these errors, as they were not material. The impact for 2022/23 is trivial and therefore management did not amend the financial statement for this error.

Detail	Comprehensive Income and Expenditure Statement £	Statement of Financial Position £	Impact on total net expenditure £
2021/22 Impact			
Dr Prepayments		6,314	
Cr Operating Expenditure- Repairs and Renewals	(6,314)		(6,314)
<i>Being prepayment of items relating to 2022/23</i>			
2022/23 Impact			
Dr Operating Expenditure- Repairs and Renewals	6,314		6,314
Cr Prepayments		(6,314)	
<i>Being prepayment of items relating to 2022/23</i>			

1. Audit Adjustments (5)

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This is not a complete list, as this does not include minor changes requested by the audit team, including typos and formatting requests.

This list of misclassification and disclosure changes reflects presentational adjustments to the financial statements which have no impact on Scottish Futures Trust and the Group's reported financial position.

Disclosure	Auditor recommendations	Adjusted?
Prepayments and Accrued Interest Income	DCIA income was included within the line 'Prepayment and accrued interest income'. Our testing of this balance highlighted a classification error where this income should be classified as 'Other Receivables'. This is a classification error only and has no impact on the overall receivables balance recognised in the statement of financial position.	Yes
Accounting Policies	Accounting policies have been updated to reflect <ul style="list-style-type: none"> • Clarification on financial reporting framework differences between SFT, the Group and SFTi; • Policy regarding Repayable Grants in line with FReM requirements; and • Disclosure of useful economic lives for Right of Use Assets 	Yes
Critical accounting judgements and key sources of estimation uncertainty	Disclosures for critical accounting judgements and key sources of estimation uncertainty did not meet the disclosure requirements of IAS 1. Management has updated and provided further narrative to this disclosure to ensure it complies with requirements of IAS 1.	Yes
Financial Instruments	Current disclosure of the Financial Instruments Note did not meet the disclosure requirements as per IFRS7. Management has updated this disclosure note to ensure compliance with the requirements of IFRS 7.	Yes

1. Audit Adjustments (6)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Related Parties	<ul style="list-style-type: none"> • Director emoluments have been included as a related party transaction. This is not considered a related party transaction and should be removed from this disclosure note as direct emoluments are included within the remuneration report. • LAR Housing Trust is to be removed as a related party transaction as is no longer a related party for 2022/23. • SFTi should be included within the related parties disclosure note. 	Yes
Remuneration Report	<ul style="list-style-type: none"> • The remuneration report should clearly state which elements of the report are subject to audit. • Disclosure on spending on consultancy and temporary staff was missing from first draft of the remuneration report. 	Yes
Annual Report	We identified a number of inconsistencies between the annual report and the amounts recorded in the financial statements. Management have updated the annual report to ensure consistency with the financial statements.	Yes
Various	A number of other minor disclosure and presentational amendments were identified and corrected by management.	Yes

2. Action plan and recommendations – Financial statements audit

We have identified two recommendations for Scottish Futures Trust Ltd and the group during our audit of the financial statements for the year ended 31 March 2023. We have agreed our recommendations with management and will report on progress on these recommendations during our 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	<p>Self Authorisation of Journals</p> <p>Journals can be authorised and approved by the same individual. Due to the size of the finance team, finance team members often post and approve their own journals, this creates a risk that inappropriate journals could be posted without being detected through review. The organisation does have other mitigating controls in place to reduce this risk including review of monthly financial outturns against budget. We have raised a control recommendation in line with best practice guidance to further mitigate the risk raised.</p>	<p>Journals should be subject to review and approval by a separate individual from the individual initiating the journal.</p> <p>Management response</p> <p>Pre-pandemic we physically signed print outs of journals, monthly, however with working remotely and with the relatively new Finance system this has not been possible. It is not good use of time for the approvers in finance to approve journals line by line as there are thousands of lines of journals each month. Therefore we will look into a way for journals to be approved on a bulk basis by the relevant approver, through Dynamics rather than printing off and signing print-outs.</p>
Medium	<p>Closure of GL Period in a timely manner</p> <p>After the end of a reporting period (usually monthly) the general ledger should be closed for that period to mitigate the risk of journals being back posted to an incorrect period. We identified through our walkthrough that journals could be back posted to previous periods due to the fact that the period had not been closed on the ledger in a timely manner.</p>	<p>Controls should be put in place to ensure general ledger periods are closed on a timely basis after ledger adjustments have been finalised to mitigate the risk of back posting journals into incorrect periods.</p> <p>Management response</p> <p>As the finance team is so tiny (1.5 FTEs), custom and practice developed that the Head of Finance would just email the Finance Assistant to say that nothing more should be posted for that month rather than formally closing the ledger through Dynamics. We will put in place a process to formally close the ledger via Dynamics on a monthly basis.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

3. Action plan and recommendations – Wider scope and Best Value

We have set out below, based on our audit work undertaken in 2022/23, the key recommendations arising from our wider scope and Best Value audit work:

Recommendation

Financial Sustainability

With a challenging financial climate and uncertain economic future, there is a risk that funding for bodies such as SFT begin to reduce in future years as the government prioritises other areas of public spend. It is therefore more important now than ever that SFT look to implement and consider medium term financial planning.

Recommendation

It is important that SFT seeks to embed elements of these uncertainties within continuous financial planning and reviews including risk and sensitivity analyses over the medium to longer term to assess and mitigate against the impact of any future risks on delivery of the financial position before they crystallise.

Agreed management response

Management response:

Although there is no formal medium to long term financial plan in place (due to the majority of SFT’s funding being awarded annually and from the Scottish Government as a grant which can go up or down), every Sept/ Oct SFT carries out a financial scenario planning exercise for our sponsor team in SG. This usually looks ahead to the next 3 years.

4. Follow up of prior year recommendations

There were no prior year recommendations raised by your predecessor auditor in the prior year audit.

5. Audit fees, ethics and independence (1)

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and Scottish Futures Trust and the Group that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place, note that there are no non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

5. Audit fees, ethics and independence (2)

Fees and non-audit services

The tables below set out the total fees for audit and other services charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Scottish Futures Trust Ltd and the Group. The table summarises all non-audit services which were identified.

External Audit Fee Service	Audit Plan £	Annual Audit Report £
External Auditor Remuneration	£32,000	£42,900*
Pooled Costs	(£512)	(£614)
Contribution to Audit Scotland support costs	£896	£1075
2022/23 Proposed Audit Fee	£32,384	
2022/23 Final Audit Fee		£43,361

Fees for other services

Service	Fees £
Non-Audit work relating to 2021/22 financial year was carried out in 2022/23 relating to advisory work on measuring progress and impact.	9,194
This work was undertaken and completed before our appointment as your external auditor therefore we are satisfied this does not impact on our independence of provision of external audit services.	

Note- the external auditor remuneration disclosed in the annual audit plan was exclusive of VAT. The final audit fee shows the remuneration inclusive of VAT. Audit Scotland have provided updated pooled costs and contribution to Audit Scotland support costs which have been reflected in the final fee.

*Final auditor remuneration includes £4,500 in respect of IFRIC 14 costs

The fees reconcile to the financial statements.

- Fees per financial statements £42,900
- Total fees per previous page £42,900

5. Audit fees, ethics and independence (3)

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Mark Stocks, Partner and Head of Public Sector Assurance, 103 Colmore Row, Birmingham, B3 3AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to John Gilchrist, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2021 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2021)

6. Communication of audit matters

International Standard on Auditing ISA (UK) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance. These are set out in the table below.

Our communication plan	Audit Plan	Annual Report (our ISA 260 Report)
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of Scottish Futures Trust's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter.		•

