



Scottish Futures Trust Ltd and Group External Audit Plan

Financial year ended 31 March 2023

June 2023



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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 audit planning 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 the organisation 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.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of Scottish Futures Trust Ltd and the Group for those charged with governance.

We are appointed by the Auditor General as the external auditors of Scottish Futures Trust Ltd and the Group for the five year period 2022/23 to 2026/27.

Respective responsibilities

Audit Scotland has issued an updated Code of Audit Practice ('the Code') covering this audit appointment period. The 2021 Code applies the requirement to communicate key audit matters to all bodies, but now requires them to be reported in the Annual Audit Report.

The Code summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the Scottish Futures Trust Ltd and Group are summarised in Appendix 1 of this Audit Plan. We draw your attention to this and the Code.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on Scottish Futures Trust Ltd and the Group's financial statements, which have been prepared by management with the oversight of those charged with governance (the Group Audit Committee). Our audit of the financial statements does not relieve management or the Group Audit Committee of your responsibilities.

It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. As part of our wider scope work, we will consider how you are fulfilling these responsibilities.

Our audit approach is based on gaining a thorough understanding of Scottish Futures Trust Ltd and is risk based.



Plan overview

The audit plan sets out our risk based audit approach for Scottish Futures Trust Ltd and Group. This plan outlines our initial risk assessment and is reported to those charged with governance (the Group Audit Committee) and will be shared with Audit Scotland.

01 Materiality

We have calculated our planning materiality using prior year gross expenditure as per audited 2021-22 financial statements as our benchmark, resulting in the following:

- We have determined planning materiality to be £220,216 (Group) and £188,737 (Company). This equates to 1.75% (Group) and 1.5% (Company) of the Group and Company prior year gross operating expenditure.
- Performance materiality has been determined as £132,130 (Group) and £113,242 (Company) and is based on 60% of planning materiality.
- We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Trivial has been determined as £11,000 (Group) and £9,400 (Company).
- We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25,000 for the remuneration of Board members and senior management.
- We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2022/23.

02 Financial statement audit

At planning, in accordance with the ISA's (UK) and Practice Note 10 (Revised 2020) 'The Audit of Public Sector Financial Statements' issued by the Public Audit Forum we have identified the following significant financial statement audit risks:

- Management override of controls (ISA (UK) 240);
- Risk of fraud in income recognition (ISA (UK) 240) (this risk has been rebutted)
- Risk of fraud in expenditure recognition (Practice Note 10);
- Valuation of Investments (valuation);
- Valuation of the net pension fund liability (valuation); and
- Application of revised financial reporting framework.

Two revised Auditing Standards (ISA (UK) 315 (Revised July 2020) ISA (UK) 240 (Revised May 2021)) will be applicable to your audit for the first time in 2022/23. Further detail on the impact of these revised standards is set out in the appendices.

03 Wider Scope and Best Value Audit

In accordance with the Code, our planning considers the wider scope and Best Value areas of audit.

No significant risks were identified in relation to financial sustainability, financial management, vision, leadership and governance and use of resources to improve outcomes, further details can be found on pages 18-21 of this report.

We will continue to review your arrangements in this area and report findings and conclusions as part of the Annual Audit Report.

Plan overview (continued)

04 Other audit matters

We summarise other audit matters for the Group Audit Committee awareness. This includes:

- In accordance with the Code and planning guidance we also complete and submit a number of deliverables during the year, including sharing intelligence with Audit Scotland, and completing Audit Scotland data sets
- Consideration of going concern in accordance with Practice Note 10.

05 Our Audit Fee

Audit fees were shared by Grant Thornton with the Director of Corporate Services and Investment in March 2023. Our fee agreed with Scottish Futures Trust Ltd is £32,384 this is split as follows:

- External Auditor Remuneration SFT Ltd £32,000
- Audit Scotland Pooled Costs (£512)
- Audit Scotland Support Costs £896

Audit fees are paid to Audit Scotland who in turn pay Grant Thornton UK LLP.

We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

The audit fee has been agreed with the audited body.

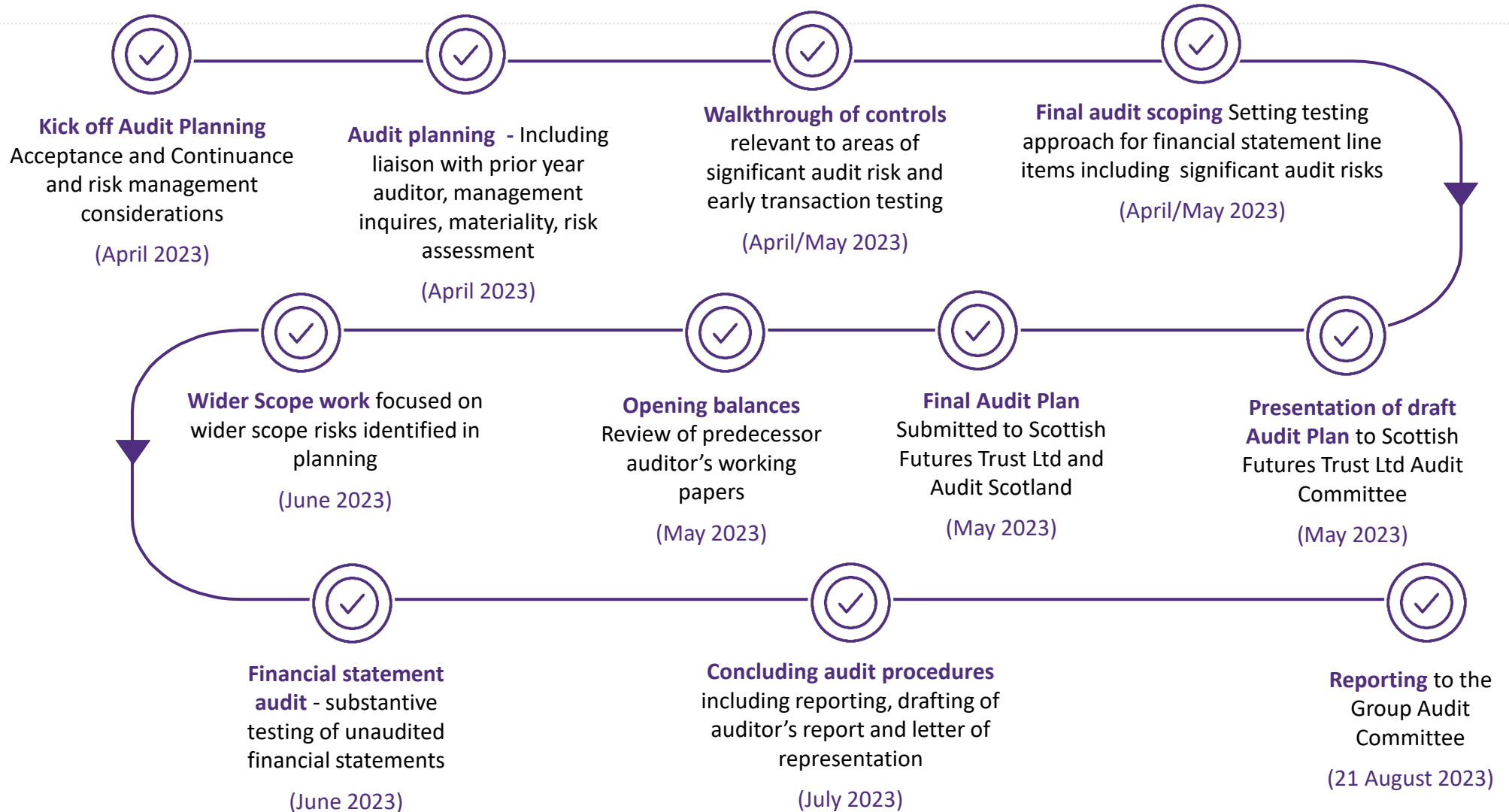
06 Adding Value Through the Audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials. We use our LEAP audit methodology and data analytics to ensure delivery of a quality audit.

As we undertake our first year as your new auditor we will bring a fresh perspective by implementing an element of unpredictability in our testing to highlight areas of risk and improvements that can be made through both the financial statement and wider scope and best value audit.

We will also perform a review of the presentation and disclosure of the financial statements under the new applicable financial reporting framework applied by SFT and the Group under the Financial Reporting Manual (FReM).

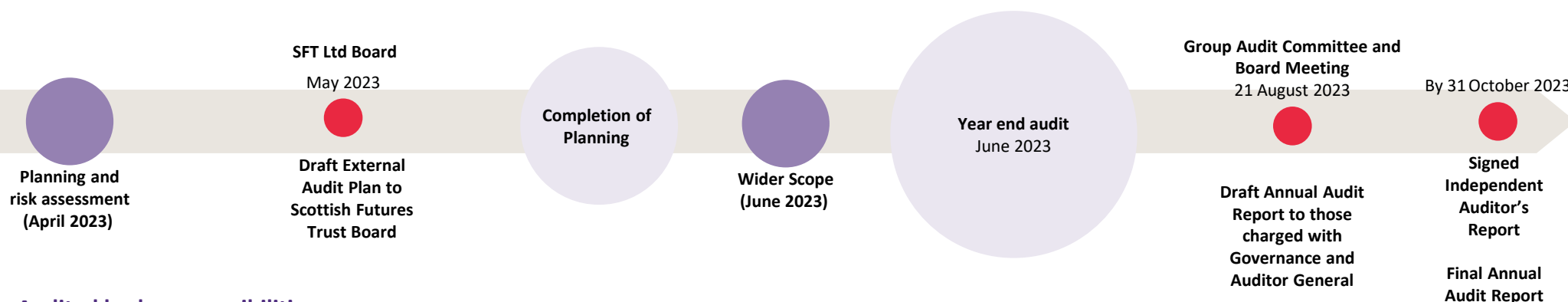
Audit approach



Audit timeline

We are required to submit audit plans to Audit Scotland by 31 March 2023, and it is anticipated that we will submit audited accounts and the Annual Audit Report by 31 August 2023. We have set out below our planned timescales for the Scottish Futures Trust and Group audit.

As SFT now falls under the Audit Scotland umbrella, we were appointed by Audit Scotland, through a separate procurement exercise and our contract amended to include SFT, in March 2023, our planning and risk assessment work was therefore delayed until April 2023.



Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging our other audit engagements. Where additional resources are needed to complete the audit due to an audited body not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft accounts, comprising financial statements and related reports, of good quality, by the deadline you have agreed with us
- prepare good quality working papers which support the figures included in the financial statements, in line with the working paper requirements schedule that we have shared with you, and make these available to us at the start of the year end audit visit
- provide all agreed data reports to us at the start of the audit, which are fully cleansed and reconciled to the figures in the financial statements
- ensure that all appropriate staff are available to us for queries over the planned period of the audit, or as otherwise agreed
- respond promptly and appropriately to all audit queries, within agreed timescales.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross operating costs of the Group and Company for the financial year. Materiality at the planning stage of our audit is £220,216 (Group) and £188,737 (Company), which equates to approximately 1.75% (Group) and 1.5% (Company) of your prior year gross operating costs of the Group and Company.

Performance materiality for the year ended 31 March 2022 has been set at £132,130 (Group) and £113,242 (Company) and is based on 60% of planning materiality.

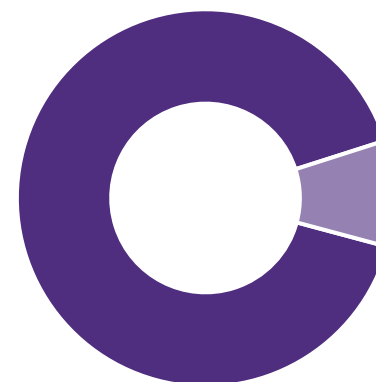
We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25,000 for the remuneration of Board members and senior management within the remuneration report.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Group Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Group Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. We have determined 'clearly trivial' as £11,000 (Group) and £9,400 (Company).

Prior year gross expenditure
2021/22: £12.584m (Group)
£12.582m (Company)



- Prior year gross expenditure
- Materiality

Materiality

£220,216

Group financial statements materiality

£188,737

Company financial statements materiality

**£11,000 (Group)
£9,400 (Company)**

Misstatements reported to the Group Audit Committee

Group audit scope and risk assessment

In accordance with ISA (UK) 600 (Revised November 2019) 'Audits of Group Financial Statements (including the Work of Component Auditors)', as Group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process in order to express an opinion on whether the group financial statements present a true and fair view and have been prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Scottish Futures Trust Ltd group consists of the following bodies:

Subsidiary

- Scottish Futures Trust Investments Ltd

There are no key changes in the group in 2022/23.

We consider both Scottish Futures Trust Ltd and Scottish Futures Trust Investments Ltd to be "individually financially significant" components of the group. We will therefore carry out a full scope audit of Scottish Futures Trust Ltd, using component materiality, and apply group materiality when performing specific audit procedures over material balances recognised and held by Scottish Futures Investments Trust Ltd Group. A full scope audit will also be undertaken by Grant Thornton for Scottish Futures Trust Investments Ltd using component materiality.

The significant risks we identified for Scottish Futures Trust Ltd and the Group are set out on pages 10 to 14 of this Audit Plan.

During the course of our audit engagement, we will continue to assess the appropriateness of our planned approach in relation to the group audit scope.

Significant audit risks (1)

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Group and SFT Ltd	Under ISA (UK) 240 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>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>
Management over-ride of controls	Group and SFT Ltd	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>We will:</p> <ul style="list-style-type: none"> • Document our understanding of and evaluate the design effectiveness of management's key controls over journals; • Analyse your full journal listing for the year and use this to determine our criteria for selecting high risk journals; • Test the high risk journals we have identified; • Gain an understanding of the critical judgements applied by management in the preparation of the financial statements and consider their reasonableness; • Gain an understanding of the key accounting estimates made by management and carry out substantive testing on in scope estimates. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK) 315)

Significant audit risks (2)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Risk that expenditure, including operating expenditure and associated creditor balances is not complete (Practice Note 10)	Group and SFT Ltd	<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>We will:</p> <ul style="list-style-type: none">• Evaluate the design and implementation effectiveness of the accounts payable system.• Evaluate the design and implementation effectiveness of your system for recording accruals.• Verify 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.• Search for unrecorded liabilities by performing a substantive sample test of invoices input on to the accounts payable system post period end.• Search for unrecorded liabilities by reviewing cash payments post period end.

Significant audit risks (3)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	SFT Ltd	<p>The Local Government Pension Scheme (LGPS) pension fund liability as reflected in the balance sheet and notes to the accounts represent significant estimates in the financial statements.</p> <p>This estimate by its nature is subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used. We do not believe there is a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation or due to the source data used in their calculation (<i>unless any significant events have occurred, such as significant special events (i.e. redundancies, bulk transfers or outsourcing), material transfers or material membership movements which the actuary may not have taken into account.</i>)</p> <p>However, we have concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. As noted above, the appropriateness of the assumptions proposed by the actuary is covered by the TAS actuarial standards. However, the entity may choose to use different assumptions than those proposed by their actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability.</p> <p>We have therefore identified the valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none">• Obtain an understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls;• Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;• Assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;• Assess the accuracy and completeness of the information provided by the SPA to the actuary to estimate the liability;• Test 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• Undertake 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.

Significant audit risks (4)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Application of Financial Reporting Manual (FRM) financial reporting framework	Group and SFT Ltd	<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.</p> <p>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>	<p>We will:</p> <ul style="list-style-type: none"> • Obtain 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 • Perform opening balance testing on material restated balances • Perform review of consolidation of group accounts to gain assurance balances and transactions have been consolidated in line with the FReM financial reporting framework. • Perform a disclosure checklist review to ensure the accounting have been prepared in accordance with FReM requirements.

Significant audit risks (5)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investments	Group	<p>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>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>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>We therefore have identified valuation of investments as a significant risk to the group financial statements.</p>	<p>We Will:</p> <ul style="list-style-type: none">• Evaluate management's processes for valuing investments and gain an understanding over the valuation process• Review 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.• Review workings to calculate the fair value of equity investments held by SFTi to ensure these are accurate. We will also review the assumptions used in the fair value calculation to ensure these are reasonable.• We will review managements expected credit loss assessment in relation to financial assets.

Other matters (1)

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2022-23 issued by Audit Scotland:

- We audit parts of your Remuneration and Staff Report in your Annual Report and check whether these sections have been properly prepared (opinion).
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in the FReM (opinion).
- We consider our other duties under the Code and planning guidance (2022/23), as and when required, including:
 - Supporting Audit Scotland in Section 22 reporting
 - Providing regular updates to Audit Scotland to share awareness of current issues
 - Notifying Audit Scotland of any cases of money laundering or fraud
 - Review of Central Government Technical guidance prior to issue by Audit Scotland.

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 was updated in 2020 to take account of revisions to ISAs (UK), including ISA (UK) 570 (Revised September 2019) on going concern.

PN 10 allows auditors to apply a 'continued provision of service approach' when auditing going concern in the public sector, where appropriate. Audit Scotland's also issued further guidance in a Going Concern publication in December 2020).

Within our wider scope work we will conclude on Scottish Future Trust's arrangements to ensure financial sustainability.

Other matters (2)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be considered as part of our audit. However, the procedures will not be as extensive as the procedures adopted for the significant risks we have identified and highlighted in this Audit Plan.

Internal control environment

During our initial audit planning we will develop our understanding of your control environment (design and implementation) as it relates to the preparation of your financial statements. In particular we will:

- Consider key business processes and related controls
- Assess the design of key controls over all significant risks we have identified. This will include key controls over:
 - Journal entries and other key entity level controls (Group and Company)
 - The completeness and accuracy of information provided to calculate the valuation of investments (Group only)
 - The review of valuation outputs including key assumptions made by the valuer and significant movements in investments (Group only)
 - The completeness and accuracy of information provided to the actuary to perform the valuation of the net pension fund liability (Group and Company)
 - The review of actuarial outputs including key assumptions made by the actuary and significant movements impacting the net pension liability (Group and Company)

Our focus is on design and implementation of controls only. We do not intend to assess, or place any reliance on the operating effectiveness of your controls during our audit.

Other matters (3)

Audit handover

To facilitate effective audit planning and deliver an efficient audit we will gain a detailed understanding of Scottish Futures Trust Ltd and the Group from discussions with key personnel at the entity, internal audit and the prior year auditor, review of Board meeting minutes and review of key documents.

We will seek to place as much assurance as possible on your previous auditor's work on your opening balances. We are in the process of communicating with your predecessor auditor and plan to visit your previous auditor in May and review their prior year audit working paper files.

Financial reporting developments

During our audit we will actively discuss emerging financial reporting developments with you. The key financial reporting development for 2022/23 central government audits is the implementation of IFRS16 from 1 April 2022, as set out on page 32 of this Audit Plan. Under SFT's previous financial reporting framework, IFRS 16 was applied in the previous year and therefore is not a new development for SFT and the Group.

Wider scope risks identified in planning (1)

Our responsibilities under the Code extend beyond the audit of the financial statements. The Code sets out four audit dimensions that frame wider scope into identifiable areas, these are shown in the table below:

2021 Code Wider Scope dimensions
Financial Sustainability
Financial Management
Vision, Leadership and Governance
Use of Resources to Improve Outcomes

The Code also requires that auditors assess and report on audited bodies' performance in meeting their Best Value and community planning duties, as part of their annual audit. For central government bodies we are required to consider the arrangements put in place by Accountable Officers to meet their Best Value obligations as part of our risk-based wider-scope audit work.

We consider each of these areas through our audit planning process and have set out below the identified areas of risk for our wider scope work.

From our initial planning work, we have not identified any significant risks in relation to Financial Sustainability, Financial Management, Vision, Leadership and Governance and Use of Resources to Improve Outcomes from our initial planning and risk assessment work. We will continue to review your arrangements before we issue our Annual Audit Report.

Our findings and recommendations of wider scope work performed will be communicated through the Annual Audit Report, which will be issued in line with the national statutory deadline.

Wider scope risks identified in planning (2)

Financial sustainability

While the SFT Ltd reported a balanced position in 2021/22 and are on track to deliver a balanced budget for 2022/23 financial year, there are financial uncertainties identified for the medium to longer term. This is compounded by an uncertain financial climate where inflation is increasing at record rates and the cost of living crises is pushing up costs for all areas of the economy. It is important that SFT and the Group seeks to embed elements of these 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 before they crystallise. The recent consecutive one-year funding settlements create challenges in the organisations ability to plan for the medium to longer term. We will seek to review how the organisation identifies significant financial pressures and builds them into financial plans. We will also review how the organisation plans its finances to support the sustainable delivery of services in accordance with strategic priorities.

Financial management

SFT has processes in place which detail the responsibilities of Board members and senior management for planning and managing the organisation's finances. These are set out in the Scottish Futures Trust Group Board Reserved Powers. The Board is a forum whereby members provide scrutiny, challenge and gain assurance with regard to all aspects on significant financial and budgetary matters. We have not identified a significant risk in relation to SFT Ltd's arrangements for financial management from our initial planning work. We will continue to review your arrangements before we issue our Annual Audit Report.

We will seek to understand the effectiveness of the SFT's budgetary control system in communicating accurate and timely financial performance, including the arrangements for identifying, monitoring and reporting of savings. We will consider the overall financial position reached by SFT and the Group during 2022/23 and we will seek to understand the future financial implications of this.

Wider scope risks identified in planning (3)

Vision, Leadership and Governance

Scottish Futures Trust Ltd have published a Corporate Plan for 2019-2024 which sets out the vision and outcomes SFT seeks to achieve and the high level activities designed to achieve them. The 5-year Corporate Plan is underpinned by an Annual Business Plan which sets out SFT's priorities for the year and explains how SFT will deliver these outcomes. We have not identified a significant risk in relation to the SFT's arrangements for vision, leadership and governance from our initial planning work. We will continue to review your arrangements before we issue our Annual Audit Report.

We will review the effectiveness of your scrutiny and governance arrangements, leadership and decision making, and transparency of reporting of financial and performance information. Our work will also include reviewing the consistency of your Governance Assurance Statement with the key findings from audit, scrutiny, and inspection.

Use of Resources to Improve Outcomes

SFT are required to make best use of its 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.

We have not identified a significant risk in relation to the SFT's arrangements for use of resources to improve outcomes from our initial planning work. We will continue to review your arrangements before we issue our Annual Audit Report.

In undertaking our work we will consider the clarity of the arrangements in place to ensure that resources are deployed to meet strategic outcomes and deliver effective services. We will do this by considering the arrangements SFT has in place to meet outcomes and improvement objectives, for working with strategic partners and communities and reporting performance against outcomes, financial and other resources.

Wider scope risks identified in planning (4)

Other wider scope areas

In addition to the wider scope risks set out above, Audit Scotland's Planning Guidance 2022/23 requires us to consider we will consider the following national risks as part of our wider Scope work:

- Climate change – Auditors are required to provide answers to six specified questions in a mandated return to Audit Scotland and include appropriate reference in our Annual Audit Report.
- Cyber security – Auditors are required to consider risks related to cyber security at audited bodies as part of their work on the financial statements audit in line with guidance issued by Audit Scotland's Digital Audit Team. As required by the planning guidance we will to report any significant incidents, issues or areas of good practice to Audit Scotland's Digital Audit team .

Best Value

The Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Auditors are required to confirm that there are organisational arrangements in place in this regard when planning and reporting on the wider scope areas. Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM. The nature and extent of this work is determined by the annual risk assessment carried out as part of our wider scope work.

As this is the first year of application of the Scottish Public Finance Manual by Scottish Futures Trust we will review the arrangements SFT has put in place to ensure it complies with the requirements to ensure that arrangements have been made to secure Best Value. This work will be carried out in conjunction with our work on the four wider scope themes.

We will report on the arrangements in place to secure Best Value within our Annual Audit Report.

Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC on audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the Scottish quality framework.

Audit fees were shared by Audit Scotland with the Director of Corporate services and Investments in March 2023. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified.

We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Fee Assumptions

In setting the below fees, it is assumed that Scottish Futures Trust Ltd will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audits
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Audit fees for 2022-23

Service	Fees £
External Auditor Remuneration SFT Ltd	£32,000
Audit Scotland Pooled Costs	(£512)
Audit Scotland Support Costs	£896
2022-23 Proposed Fee	£32,384

Additional Fees (Non-Audit 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

Adding value through the audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials and our LEAP audit methodology and use of data analytics to ensure delivery of a quality audit.

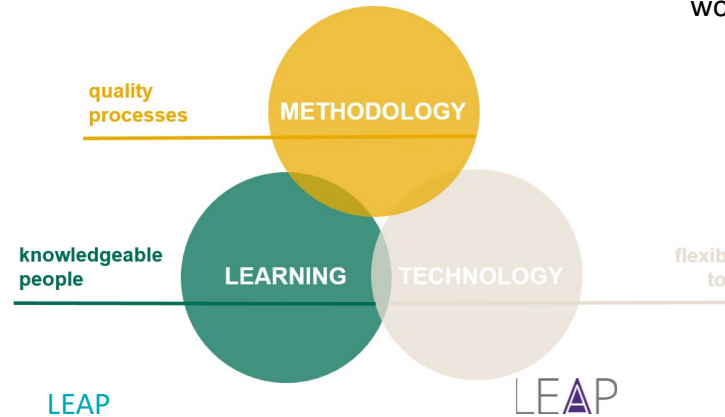
Our audit methodology is risk based and includes developing a good understanding of Scottish Futures Trust Ltd. The diagram opposite summarises how our methodology and use of data adds value to our audit.

We comply with UK Auditing Standards and as Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest through our Audit Investment Plan, which is supported by a specific national Public Sector Investment Plan.

We comply with Audit Scotland’s quality arrangements, including submitting an Annual Quality Report on our Audit Scotland portfolio. Audit Scotland’s quality report for 2021/22 can be found on the [Audit Scotland website](#).

Our wider quality arrangements are set out in our annual transparency reports which are available on our website here: [Annual report 2021](#).

Use of audit, data interrogation and analytics software



LEAP

- A globally developed ISA-aligned methodology that re-engineers our audit approach to focus on quality and effectiveness
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients’ businesses
- The LEAP approach allows us to tailor the audit programme to help engagement teams respond quickly to any changes as they occur, keeping quality high through responsiveness and flexibility.

Info



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST AND SHARE

- Communicate and transfer documents securely; Extract data directly from client systems; Work flow assignment and progress monitoring



ASSESS AND SCOPE

- Compare balances and visualise trends; Understand trends and perform more granular risk assessment



VERIFY AND REVIEW

- Automate sampling; Download automated work papers



INTERROGATE AND EVALUATE

- Analyse 100% of transactions quickly and easily; Identify high risk transactions for investigation and testing; Provide client reports and relevant benchmarking KPIs



FOCUS AND ASSURE

- Visualise relationships impacting core business cycles; Analyse 100% of transactions to focus audit on unusual items; Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports

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Independence

Auditor independence

Ethical Standards and ISA (UK) 260 'Communication with Those Charged With Governance' require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the Firm, or covered persons, relating to our independence.

We encourage you to contact us to discuss any independence issues, with us and will discuss the matter with you if we make any significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors of Scottish Futures Trust Ltd and the Group that we are required to report or wish to draw to your attention.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the 2019 Ethical Standard.

Our team complete annual fit and proper declarations, including independence confirmations, as well as confirming independence from individual audited bodies when completing timesheets. The work of our Ethics team is overseen by our Ethics partner and all staff undergo regular ethics training each year.

We confirm we are independent of Scottish Futures Trust Ltd and the Group.

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit and additional services before we were appointed as auditor. Non-audit services prior to our appointment include advisory work relating to measuring progress and impact relating to matters arising before the 2022/23 financial year. Prior to our appointment the non-audit services provided were discussed with Audit Scotland in the context of independence and our role as external auditor. Audit Scotland agreed that the services provided prior to our appointment did not impact on our independence as external auditors and since our appointment this non-audit service has been completed and therefore we consider there to be no threats to our independence as external auditors for the 2022/23 financial year.

No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Annual Audit Report at the conclusion of the audit.



Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

Scottish Futures Trust Ltd

Your responsibilities include:

- Maintaining adequate accounting records and working papers
- Preparing accounts for audit, comprising financial statements, which give a true and fair view, and related reports
- Establishing and maintaining a sound system of internal control
- Establishing sound arrangements for proper conduct of affairs, including the regularity of transactions
- Maintaining standards of conduct for the prevention and detection of fraud and other irregularities
- Maintaining strong corporate governance arrangements and a financial position that is soundly based
- Establishing and maintaining an effective internal audit function.

External Audit

Our responsibilities include:

- Compliance with the FRC Ethical Standard
- Compliance with the Code and UK Auditing Standards (ISA's UK) in the conduct and reporting of our financial statements audit
- Compliance with the Code and guidance issued by Audit Scotland in the conduct and reporting of our wider scope work
- Providing assurance on specified returns and other outputs (where required), as specified in guidance issued by Audit Scotland
- Liaison with and notifying Audit Scotland when circumstances indicate a statutory report may be required.
- Contributing to relevant performance studies (as set out in Audit Scotland's Planning Guidance for 2022/23).



Communication

ISA (UK) 260 'Communication with Those Charged With Governance', as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (the Group Audit Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Group Audit Committee.

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 Ltd'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		•

Fraud responsibilities

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on Scottish Futures Trust Ltd was the year ended 31 March 2023. Requirements in ISA (UK) 240 (Revised May 2021) have been enhanced for the identification and assessment of risks of material misstatement due to fraud and the response to those risks.

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Scottish Futures Trust Ltd.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is Scottish Futures Trust's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

As auditors, we are required to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

As part of our risk assessment procedures we are required to:

- identify and assess the risks of material misstatement in the financial statements due to fraud, including financial misreporting and misappropriation of assets.
- hold separate discussions with management, those charged with governance and others (as appropriate) to gain insights on their views of fraud.

Fraud responsibilities (continued)

During our audit work we will:

- design and implement appropriate audit procedures to respond to the risks of misstatement we have identified and reported in this Audit Plan
- remain alert to new risks and amend our risk assessments accordingly
- respond appropriately to any risks identified.

Throughout the audit we work with you to consider the significant risks we identify, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control. We will report to you any significant deficiencies we identify.

In addition, as set out in the Audit Scotland Planning Guidance 2022-23 ,we are required to:

- provide information on fraud cases to Audit Scotland on a quarterly basis
- communicate emerging issues to Audit Scotland, and
- contribute to the National Fraud Initiative report

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the Audit Scotland Planning Guidance for 2022-23) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Scottish Futures Trust Ltd we will report to the Auditor General as required by Audit Scotland.

IT audit strategy

ISA (UK) 315 (Revised July 2020): Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and its Environment' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on Scottish Futures Trust Ltd was the year ended 31 March 2023.

We are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). The revised requirements in ISA (UK) 315 (Revised July 2020) include:

Key changes

- An emphasis has been added on the need for auditors to not bias their work toward obtaining corroborative evidence or excluding evidence that is contradictory.
- The concept of 'inherent risk factors' has been introduced to assist the auditor in identifying events or conditions that may affect the susceptibility of assertions about classes of transactions, account balances or disclosures to misstatement.
- A new concept of significant classes of transactions, account balances or disclosures refers to those classes for which there are assertions with an identified risk of material misstatement (referred to as relevant assertions).
- A new concept of spectrum of inherent risk applies to the extent to which inherent risk varies.
- Significant risk relates to an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the affect of inherent risk factors on the combination of the likelihood of a misstatement and the magnitude.
- A requirement for auditors to understand the entity's use of IT in its business, the related risks and the system of internal control addressing such risks. (Guidance is being provided from Audit Scotland's Digital Auditing team to assist auditors in this regard).

During our audit we will complete an assessment of the design and implementation of relevant ITGCs.

IT audit strategy (continued)

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Dynamics 365 Business Central	Financial reporting	A detailed review of the IT General Controls related to security management, development and maintenance and technology infrastructure will be carried out for the 2022/23 financial year on this in scope systems. We will look to gain assurance on the work performed in year in relation to the design effectiveness and implementation of IT General Controls for the current financial year and update our understanding of any changes in the system since the prior financial year. We will review any changes identified in key controls from the prior year and assess the impact of any changes on the planned audit approach.

Right of Use Assets - IFRS 16 implementation

IFRS 16 was implemented by Scottish central government bodies from 1 April 2022. This Accounting Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Introduction

Following the previous deferrals of IFRS 16 Leases *in the public sector*, Scottish Government has worked with central government bodies in Scotland in the implementation of this new accounting standard. It came into force for Scottish central government bodies on 1 April 2022.

IFRS 16 updates the definition of a lease to “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration”.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to a number of exemptions, as set out below.)

Key points that Scottish Futures Trust Ltd will need to consider in their financial statements in 2022/23 include:

- The need to recognise the cumulative effects of initially applying IFRS 16 on 1 April 2022 as an adjustment to the opening balances of taxpayers' equity. (Prior year comparators do not need to be restated).
- The need to recognise the right-of-use asset for leases previously classified as operating leases at an amount equal to the outstanding lease liability.
- No adjustments are needed for leases for which the underlying asset is of low value (less than £5,000 new) or where the lease term is less than 12 months.

- Assets where there is no, or a below market rate, peppercorn lease premium should be recognised as a right-of-use asset measured at current value in existing use or fair value as appropriate. Any difference between this and the lease liability will be recognised as part of the adjustment to the opening balances of taxpayers' equity.

Scottish Futures Trust's systems and processes

Where relevant, central government bodies will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Future auditing developments

There are changes to the following ISAs (UK) which will impact on our central government audits for the first time in future years.

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2022.:

- ISQM (UK) 2 (Issued July 2021) ‘Engagement Quality Reviews’
- ISA (UK) 220 (Revised July 2021) ‘Quality Management for an Audit of Financial Statements’

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2023.

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Quality control	<ul style="list-style-type: none"> • ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer (EQR) and the EQRs responsibilities relating to the performance and documentation of an engagement quality review. • The objective of the firm, through appointing an EQR, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon. • The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and applicable legal and regulatory requirements; and the auditor's report issued is appropriate in the circumstances.
Direction, supervision and review of the engagement	<ul style="list-style-type: none"> • Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.
Documentation	<ul style="list-style-type: none"> • The amendment to these auditing standards will result in additional documentation requirements to demonstrate how these requirements of these revised standards have been addressed.

