Grant Thornton

Scottish Futures Trust Limited and Group External Audit Plan

For the year ended 31 March 2025

17 January 2025

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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.

01 Introduction and plan overview

Introduction

Purpose

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

We are appointed by the Auditor General as the external auditors of SFT and the Group for the five-year period from 2022/23 to 2026/27.

Respective responsibilities

The Code Of Audit Practice ('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 SFT and the Group are summarised in Appendix B 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 SFT and the Group's financial statements, which have been prepared by management with the oversight of those charged with governance (the Group Audit Committee, GAC). Our audit of the financial statements does not relieve management or the GAC 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 SFT and is risk based.

Plan overview (1)

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

01 Materiality

We have calculated our planning materiality using the gross expenditure from the audited 2023/24 financial statements as our benchmark. From the total gross expenditure, we have deducted the impact of any gain/loss on fair value movements in the subordinated debt investments and the impact of any pension interest, as these are both volatile.

- We have determined planning materiality to be £257,000 for the Group (2023/24: £204,000) and £255,000 for the Company (2023/24: £203,000). This equates to 2.5% of the 2023/24 gross expenditure (2023/24: 2.0%).
- Performance materiality has been determined as £192,750 for the Group (2023/24: £153,000) and £191,250 for the Company (2023/24: £152,250) and is based on 75% of planning materiality (2023/24: 75%).

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 £12,900 for the Group and £12,800 for the Company.

We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £25,000.

We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2024/25.

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);
- Valuation of investments (valuation);
- Valuation of the net pension fund asset/liability (valuation);
- Risk of fraud in income recognition (ISA (UK) 240) (this risk has been rebutted);
- Risk of fraud in expenditure recognition (Practice Note 10) (this risk has been rebutted).

(continued overleaf)

Plan overview (2)

02 Financial statement audit *(continued)*

We will communicate significant findings on these areas as well as any other significant matters arising from the audits to you in our Annual Audit (ISA 260) Report.

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 or use of resources to improve outcomes, further details can be found on pages 28-34 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.

04 Other audit matters

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

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

Plan overview (3)

05 Our audit fee

Audit fees were shared by Audit Scotland with the Director of Corporate Services and Investment in January 2025. The Audit Scotland fee agreed with Scottish Futures Trust Limited is £42,080, this is split as follows:

- Auditor remuneration £42,490
- Audit Scotland pooled costs (£410)

In addition, we will be levying a £1,000 fee for the additional work required following the revision of ISA 600 "Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)".

The total fee for 2024/25 is therefore £43,080.

Audit fees will be 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.

We aim to add value to SFT through our external audit work by being constructive and forward looking, by attending meetings of the Group Audit Committee and by recommending and encouraging good practice. In so doing, we will help SFT promote improved standards of governance, better management and decision making and more effective use of resources.

As part of our joint working with your subsidiary auditors we will look to ensure efficiency in our work and avoid duplication of requests to ensure a smooth and efficient audit process.

02 Audit approach

Audit approach

Kick off Audit Planning Acceptance and Continuance and risk management considerations

(Jan 2025)

Audit planning Including management inquires, materiality, risk assessment

(Jan 2025)

Walkthrough of controls relevant to areas of significant audit risk and early transaction testing

(Jan 2025)

Wider scope planning Identification of wider scope risks

(Jan 2025)

Draft Audit Plan Submitted to management for review

(17 Jan 2025)

Final Audit Plan Presented to the SFT Group Audit Committee

(27 Jan 2025)

Wider Scope work focused on wider scope risks identified in planning

(Mar - Apr 2025)

Final audit scoping Setting testing approach for financial statement line items including significant audit risks

(Jun 2025)

Financial statement audit substantive testing of unaudited financial statements, excluding pensions and group work

(Jun – Jul 2025)

Reporting draft findings to the SFT Group Audit Committee

(28 Aug 2025)

Concluding audit procedures including pensions and group work

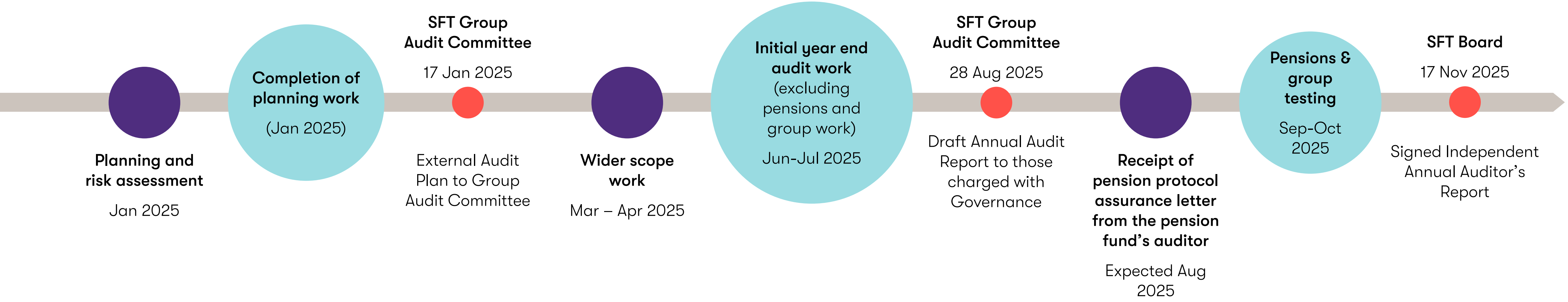
(Sep-Oct 2025)

Reporting final findings to the SFT Board

(17 Nov 2025)

Audit timeline (1)

We are required to submit audit plans to Audit Scotland by 31 March 2025, and it is anticipated that we will submit audited accounts and the Annual Audit Report for Board approval on 17 November 2025, which will be after the Audit Scotland deadline of 31 October 2025. We have set out above our planned timescales for the Scottish Futures Trust and Group audit.



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 may incur additional audit fees.

(continued overleaf)

Audit timeline (2)

Audited body responsibilities *(continued)*

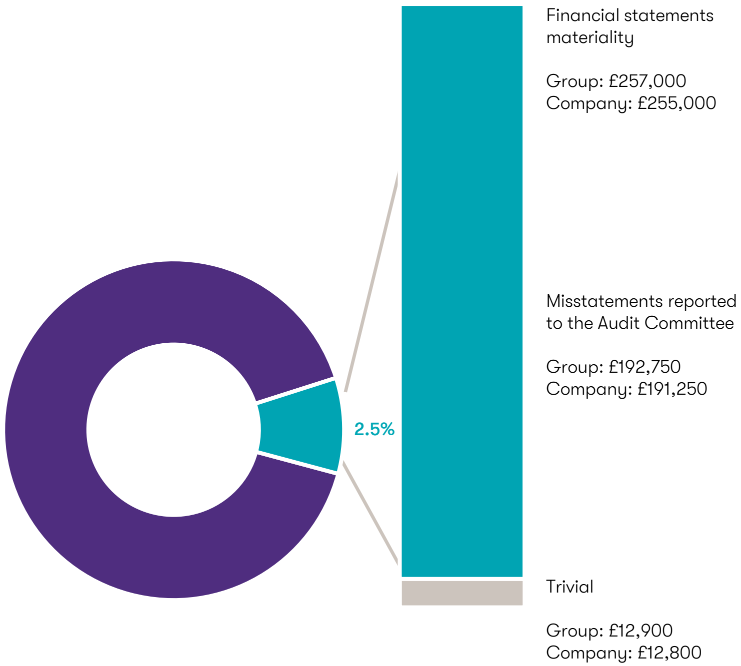
Our requirements

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, and;
- respond promptly and appropriately to all audit queries, within agreed timescales.

03 Materiality

Materiality (1)



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, Company and material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

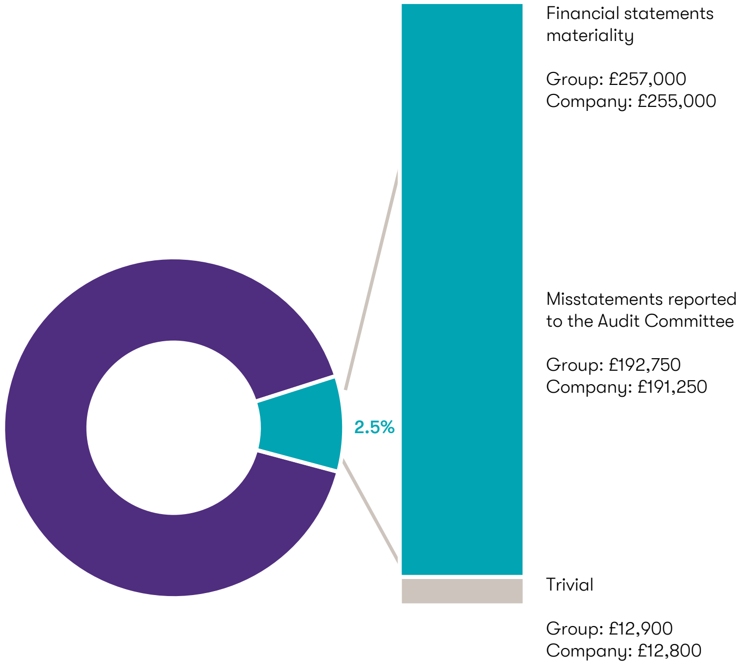
We have determined financial statement materiality based on the total gross expenditure of the Group and Company, excluding any impact of fair value movements on subordinated debt investments or pension interest.

Materiality at the planning stage of our audit has been set at £257,000 for the Group (2023/24: £204,000), and £255,000 for the Company (2023/24: £203,000), which equates to approximately 2.5% of 2023/24 expenditure.

Performance materiality for the year has been set at £192,750 for the Group (2023/24: £153,000) and £191,250 for the Company (2023/24: £152,250), and is based on 75% of planning materiality.

(continued overleaf)

Materiality (2)



Materiality for planning purposes *(continued)*

We have set a specific lower materiality of £25,000 for the auditable elements of the remuneration and staff 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 £12,900 for the Group and £12,800 for the Company.

04 Group audit scope and risk assessment

Group audit scope and risk assessment

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

Scottish Futures Trust Investments Limited (SFTi) - Subsidiary

Based on our work performed there are no key changes in the group in 2024/25. A separate plan will be submitted to the group Audit Committee by your component auditor, and we will highlight if there any changes to the group risk assessment within our annual audit report.

In accordance with ISA (UK) 600 Revised '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 to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. We will therefore carry out a full scope audit of Scottish Futures Trust Limited, using component materiality, and apply group materiality when performing specific audit procedures over material balances recognised and held by Scottish Futures Trust Limited Group.

A full scope audit will also be undertaken by Grant Thornton for Scottish Futures Trust Investments Limited (SFTi) using component materiality. The audit of SFTi will be undertaken by a separate audit team within the commercial branch of Grant Thornton UK LLP. We will liaise with your component auditor to ensure there is no duplication of work in relation to the group audit.

The significant risks we identified for Scottish Futures Trust Limited and the Group are set out on pages 18 to 22 of this Audit Plan. A separate audit plan will be issued for SFTi, and once this is issued, we will assess any risks identified by the component auditor to identify any impact on the group audit, and any changes to the group audit risks identified as a result will be communicated to those charged with governance.

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.

05 Significant audit risks

Significant audit risks (1)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls	Group and company	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.	In addressing this audit risk we will: • 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) 315R)

Significant audit risks (2)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Group and company	The Local Government Pension Scheme (LGPS) pension fund asset/liability as reflected in the balance sheet and notes to the accounts represent significant estimates in the financial statements. 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 (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.) 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. *(continued overleaf)*	In addressing this audit risk we will: • 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. • Request and obtain pension protocol assurance letters from the Lothian Pension Fund Auditor.

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	Group and company	*(...continued)* 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. We have therefore identified the valuation of the pension fund net liability as a significant risk and a key audit matter.	

Significant audit risks (4)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investments	Group	The Scottish Government grants SFT Limited capital funds which SFT Limited grants on to SFTi Limited for investment in subordinated debt and share capital in special purpose vehicles and working capital in hub companies. The Scottish Government also provides repayable grant to SFT Limited which is then granted onwards to SFTi Limited for investment in subordinated debt and share capital in special purpose vehicles. Investments are valued 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. Valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore have identified valuation of investments as a significant risk and a key audit matter.	In addressing this audit risk we will: • 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 the component auditor file to gain assurance over your workings to calculate the fair value of equity investments held by SFTi Limited to ensure these are accurate. We will also review the component auditor file to gain assurance over the assumptions used in the fair value calculation to ensure these are reasonable. • Review the component auditor file to gain assurance over managements expected credit loss assessment in relation to financial assets.

Significant audit risks (5)

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 company	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.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at SFT Limited and the Group, we have determined that the risk of fraud arising from revenue recognition for all revenue streams can be rebutted, because: • 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. Therefore, we **do not** consider this to be a significant risk for SFT Limited and the Group.
Risk that expenditure, including operating expenditure and associated creditor balances is not complete (Practice Note 10) (rebutted)	Group and company	Due to the presumption that there are risks of fraud in expenditure recognition, we are required to evaluate which types of expenditure, expenditure transactions or assertions give rise to such risks. Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition".	Having considered the risk factors set out in ISA 240 and the nature of the expenditure streams at SFT Limited and the Group, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because: • there is little incentive to manipulate expenditure recognition; • opportunities to manipulate expenditure recognition are very limited; and • regular dialogue with the Scottish Government to monitor financial performance provides limited opportunity to manipulate the financial position. A large proportion of SFT's expenditure relates to advisory fees and payroll costs. These expenditure streams and processes are largely automated. Controls have also been designed and implemented to mitigate any fraud within these expenditure streams and therefore the risk of fraud in expenditure recognition is deemed low. Therefore, we **do not** consider this to be a significant risk for SFT Limited and the Group.

06 Other matters

Other matters (1)

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2024/25 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 carry out work in order to express an opinion on whether in all material respects, expenditure was incurred and income applied in accordance with applicable enactments and guidance issued by the Scottish Ministers (opinion).
- We consider our other duties under the Code and planning guidance (2024/25), as and when required, including:
  - Review of Central Government Technical guidance prior to issue by Audit Scotland.
  - Supporting Audit Scotland in Section 22 reporting, where relevant
  - Providing regular updates to Audit Scotland to share awareness of current issues
  - Notifying Audit Scotland of any cases of money laundering or fraud

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

(continued overleaf)

Other matters (2)

Going concern assessment *(continued)*

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 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 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)

(continued overleaf)

Other matters (3)

Internal control environment *(continued)*

- 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.

Financial reporting developments

During our audit we will actively discuss emerging financial reporting developments with you. There are currently no key financial reporting developments for 2024/25 central government audits that will impact upon SFT Limited and the Group.

07 Wider scope and Best Value

Wider scope risks identified at planning (1)

Our responsibilities under the Code of Audit Practice extend beyond the audit of the financial statements. The Code of Audit Practice sets out four areas that constitute the wider scope of public audit in Scotland. These are summarised in the following table.

Area	Meaning
Financial management	Having sound budgetary processes. Audited bodies should understand the financial environment and whether internal controls are operating effectively.
Financial sustainability	Being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.
Vision, leadership and governance	Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.
Use of resources to improve outcomes	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.

We consider each of these areas through our audit planning process and have set out over the next pages 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.

Our findings and recommendations of wider scope work performed will be communicated through the Annual Audit Report.

Wider scope risks identified at planning (2)

Area	2023/24 Auditor judgement on arrangements		2024/25 risk assessment	Planning considerations
Financial management	G	No risks of significant weakness reported and no improvement recommendations made.	No significant risks identified.	Scottish Futures Trust Limited (SFT) have a robust internal audit strategy which is being delivered by an external provider, RSM, who report to the Group Audit Committee (GAC), providing assurance that the system of internal control is operating effectively. The GAC reviewed and approved a revised Internal Controls and Financial Procedures Manual which clearly sets out central elements of SFT's internal and financial control structures and procedures. The latest version of the manual has been updated to reflect improved accounting procedures in relation to journal approval, bank and balance sheet reconciliations and accounting changes due to the 2023/24 external audit recommendations. Financial performance monitoring is reported to the SFT Group Board at every meeting, providing timely information for users. SFT sets an annual budget which is approved by the SFT Group Board and agreed with Scottish Government (SG) before forming part of the Annual Business Plan. The budget is balanced by grant funding from SG, which is further supplemented by investment income through Scottish Futures Trust Investments Limited (SFTi). Our initial planning work has not identified a significant risk in relation to SFT's arrangements for financial management. As part of our work, we will consider whether the body has effective arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.

G No significant weaknesses in arrangements identified or improvement recommendation made.

A No significant weaknesses in arrangements identified, but improvement recommendations made.

R Significant weaknesses in arrangements identified and key recommendations made.

Wider scope risks identified at planning (3)

Area	2023/24 Auditor judgement on arrangements		2024/25 risk assessment	Planning considerations
Financial sustainability	A	No risks of significant weakness reported; one improvement recommendation made.	No significant risks identified.	SFT sets a balanced budget in agreement with SG, annually. Management is engaged with Scottish Government on corporate planning over a 5 year look ahead and with the Sponsor Division and Programme Funders on the short to medium term resources required for sustainability. However, core and programme funding is only ever confirmed on an annual basis and for that reason SFT does not hold a formalised medium or long term financial strategy. SFT have developed a Corporate Plan for the period 2025-2029, which will be presented at the January Board meeting. We will review and assess this thereafter. There is a risk that cuts to core and programme funding could be made over the coming years, which would impact on SFT's ability to continue to deliver against its corporate plan. Our initial planning work has not identified a significant risk in relation to SFT's arrangements for financial sustainability. As part of our work, we will look ahead to consider whether the body is planning effectively to continue to deliver services.

Wider scope risks identified at planning (4)

Area	2023/24 Auditor judgement on arrangements		2024/25 risk assessment	Planning considerations
Vision, leadership and governance	G	No risks of significant weakness reported and no improvement recommendations made.	No significant risks identified.	SFT have developed a Corporate Plan for the period 2025-2029, which will be presented at the January Board meeting. We will review and assess this thereafter. The Corporate Plan is underpinned by an Annual Business Plan which sets out SFTs priorities for the year and their approach for delivering on those priorities. Our initial planning work has not identified a significant risk in relation to SFT's arrangements for vision, leadership and governance. As part of our work, we will consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. We will also consider the effectiveness of governance arrangements for delivery, which includes openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Wider scope risks identified at planning (5)

Area	2023/24 Auditor judgement on arrangements		2024/25 risk assessment	Planning considerations
Use of resources to improve outcomes	G	No risks of significant weakness reported and no improvement recommendations made.	No significant risks identified.	SFT are obligated 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. Our initial planning work has not identified a significant risk in relation to SFT's arrangements for the use of resources to improve outcomes. As part of our work, we will consider the clarity of the arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.

Best value (1)

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.

The duty of Best Value, as set out in the SPFM, is:

- to make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and, in making those arrangements and securing that balance,
- to have regard to economy, efficiency, effectiveness, the equal opportunities requirements and to contribute to the achievement of sustainable development.

Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services. Guidance for Accountable Officers is structured around the nine characteristics for Best Value in the SPFM, grouping into five themes and two cross-cutting themes as follows:

Guidance for Accountable Officers	Scottish Public Finance Manual themes
Vision and Leadership	Commitment and leadership Responsiveness and consultation Sound governance at a strategic and operational level
Effective Partnerships	Joint working Responsiveness and consultation

Best value (2)

Guidance for Accountable Officers	Scottish Public Finance Manual themes
Governance and Accountability	Responsiveness and consultation Commitment and leadership Accountability
Use of resources	Sound management of resources Use of review and options appraisal
Performance Management	Sound governance at a strategic and operational level Responsiveness and consultation
Equality	Equal Opportunities arrangements
Sustainability	A Contribution to Sustainable Development

The Code of Audit Practice 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.

08 Audit fees

Audit fees (1)

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2024) which stipulate that the Engagement Lead (Key Audit Partner) 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.

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 detailed in ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

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 have yet to be shared by Audit Scotland with the Director of Corporate Services and Investment.

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 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 (2)

Expected audit fees for 2024/25

Service	Fees (expected – not yet confirmed)
External auditor's remuneration for the audit of SFT Limited and the Group	£42,490
Audit Scotland pooled costs	(£410)
ISA 600	£1,000
2024/25 proposed fee	**£43,080**

A separate audit fee is set by your component auditors for the audit of SFTi Limited. This is communicated by the component auditor within their audit plan of SFTi Limited to the Group Audit Committee.

At planning stage, we confirm there are no planned non-audit services.

09 Delivering audit quality

Delivering audit quality

Our quality strategy

We deliver the highest standards of audit quality by focusing our investment on:

Creating the right environment

Our audit practice is built around the markets it faces. Your audit team are focused on the Public Sector audit market and work with clients like you day in, day out. Their specialism brings experience, efficiency and quality.

Building our talent, technology and infrastructure

We've invested in digital tools and methodologies that bring insight and efficiency and invested in senior talent that works directly with clients to deploy bespoke digital audit solutions.

Working with premium clients

We work with great public and private businesses that, like you, value audit, value the challenge a robust audit provides, and demonstrate the strongest levels of corporate governance. We're aligned with our clients on what right looks like.

Our objective is to be the best audit firm in the UK for the quality of our work and our client service, because we believe the two are intrinsically linked.

How our strategy differentiates our service

Our investment in a specialist team, and leading tools and methodologies to deliver their work, has set us apart from our competitors in the quality of what we do.

The FRC highlighted the following as areas of particularly good practice in its recent inspections of our work:

- use of specialists, including at planning phases, to enhance our fraud risk assessment
- effective deployment of data analytical tools, particularly in the audit of revenue
- clear oversight at group level when working with component auditors, including detailed review of working papers to flush out the critical issues early.

The right people at the right time

We are clear that a focus on quality, effectiveness and efficiency is the foundation of great client service. By doing the right audit work, at the right time, with the right people, we maximise the value of your time and ours, while maintaining our second-to-none quality record.

Bringing you the right people means that we bring our specialists to the table early, resolving the key judgements before they impact the timeline of your financial reporting. The audit partner always retains the final call on the critical decisions; we use our experts when forming our opinions, but we don't hide behind them.

Digital differentiation

We're a digital-first audit practice, and our investment in data analytics solutions has given our clients better assurance by focusing our work on transactions that carry the most risk. With digital specialists working directly with your teams, we make the most of the data that powers your business when forming our audit strategy.

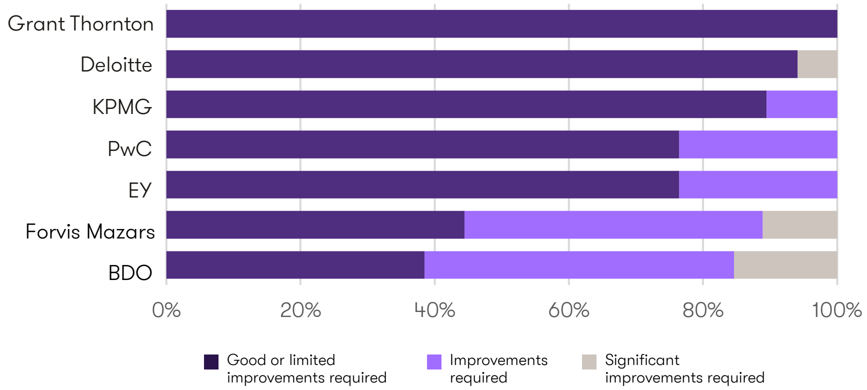
Oversight and control

Wherever your audit work is happening, we make sure that its quality meets your exacting requirements, and we emphasise communication to identify and resolve potential challenges early, wherever and however they arise. By getting matters on the table before they become "issues", we give our clients the time and space to deal with them effectively.

Quality underpins everything at Grant Thornton, as our FRC inspection results in the chart below attest to. We're growing our practice sustainably, and that means focusing where we know we can excel without compromising our strong track record or our ability to deliver great audits. It's why we will only commit to auditing businesses where we're certain we have the time and resource, but, most importantly, capabilities and specialist expertise to deliver. You're in safe hands with the team; they bring the right blend of experience, energy and enthusiasm to work with you and are fully supported by myself and the rest of our firm.

Wendy Russell
Partner, UK Head of Audit

FRC's Audit Quality Inspection and Supervision Inspection
(% of files awarded in each grading, in the most recent report for each firm)



Appendices

A. Independence (1)

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, there are no matters that we are required to report.

We confirm that there are no significant facts or matters that impact on our independence at planning 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. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in September 2022 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We are required to report to you details of any breaches of the requirements of the FRC Ethical Standard, and of any safeguards applied and actions we have taken to address any threats to independence. We have no such breaches to report. We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard.

(continued overleaf)

A. Independence (2)

Auditor independence *(continued)*

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

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton 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 for 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 (that would exceed the threshold set in the Ethical Standard).

Following this consideration, we can confirm that we are independent at planning and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

B. 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 Limited

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 2024/25).

C. Communication (1)

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 Auditor's Report (ISA 260 report)
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Planned use of internal audit	•	
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 the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•

C. Communication (2)

Our communication plan	Audit plan	Annual Auditor's Report (ISA 260 report)
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		•

D. Fraud responsibilities (1)

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. 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 Limited.

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.

D. Fraud responsibilities (2)

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 2023/24 ,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 2023/24) 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.

E. IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems (i.e. IT general controls (ITGCs)). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

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 of 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 2023/24 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.
Cascade	Payroll, pensions and remuneration report	

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

F. Future auditing developments

The following IFRS Standards and amendments have been recently issued but have not yet been adopted by the FReM.

IFRS 17 Insurance contracts

IFRS 17 replaces IFRS 4. IFRS 17 provides consistent principles for all aspects of accounting for insurance contracts. It removes existing inconsistencies and enables investors, analysts and others to meaningfully compare companies, contracts and industries. It has been effective in the UK since **1 January 2023**.

IFRS 18 Presentation and Disclosure in the Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements. All entities reporting under IFRS Accounting Standards will be impacted.

The new standard will impact the structure and presentation of the statement of profit or loss as well as introduce specific disclosure requirements. Some of the key changes are:

- Introducing new defined categories for the presentation of income and expenses in the income statement
- Introducing specified totals and subtotals, for example the mandatory inclusion of 'Operating profit or loss' subtotal.
- Disclosure of management defined performance measures
- Enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes.

IFRS 18 will be effective in the UK from **1 January 2027.**

Amendments to IAS 21 – Lack of exchangeability

IAS 21 has been amended by the IASB to specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments are effective in the UK from **1 January 2025**.

Amendments to IFRS 9 and IFRS 7 – Classification and measurement of financial instruments

These amendments clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, adds guidance on the SPPI criteria, and includes updated disclosures for certain instruments. The amendments are effective in the UK from **1 January 2026**.

IFRS 19 Subsidiaries without Public Accountability: Disclosures

IFRS 19 provides reduced disclosure requirements for eligible subsidiaries. A subsidiary is eligible if it does not have public accountability and has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards. IFRS 19 is a voluntary standard for eligible subsidiaries and is effective in the UK from **1 January 2027**.

Grant Thornton