# Annual Audit Report

**Scottish Funding Council – year ended 31 March 2024**

September 2024

forvis mazars

Scottish Funding Council
Apex 2,
97 Haymarket Terrace
Edinburgh
EH12 5HD

Forvis Mazars
One St Peter's Square
Manchester
M2 3DE

3 October 2024

Dear Committee Members and the Auditor General for Scotland,

## Annual Audit Report – Year ended 31 March 2024

We are pleased to present our Annual Audit Report for the year ended 31 March 2024. The purpose of this document is to summarise our audit conclusions and findings from our considerations of the wider scope audit specified in the Code of Audit Practice 2021 namely, financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

The scope of our work, including identified significant audit risks, and other key judgement areas, was outlined in our Annual Audit Plan, which we presented to you on 6 June 2024.

We have reviewed our Annual Audit Plan and concluded that the significant audit risks and other key judgement areas set out in that report remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail, then please do not hesitate to contact me on +44 (0)7721 234 043.

Yours faithfully

Karen Murray

Signed:

**Karen Murray**

Forvis Mazars LLP

# Contents



Our reports are prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 18 May 2022 through which the Auditor General for Scotland has appointed us as external auditor of Scottish Funding Council (SFC) for financial years 2022/23 to 2026/27. We undertake our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000, as amended; and our responsibilities as set out within Audit Scotland's Code of Audit Practice 2021.
Reports and letters prepared by appointed auditors and addressed to the SFC are prepared for the sole use of the SFC and made available to Audit Scotland and the Auditor General for Scotland. We take no responsibility to any member or officer in their individual capacity or to any other third party.

01

# Executive Summary

# Executive summary

## Audit conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2023/24 is set out in Audit Scotland's Code of Audit Practice 2021. Our responsibilities and powers are derived from our appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000 and as outlined in our Annual Audit Plan, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report, we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Annual Audit Plan, which include:

- Management override of controls;

## Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements. Section 7 outlines our work on the Scottish Funding Council's (SFC's) arrangements to achieve economy, efficiency and effectiveness in its use of resources.

## Status and audit opinion

We have concluded on our audit in respect of the financial statements for the year ended 31 March 2024.Based on our audit work completed to date, we have the following conclusions.

**Audit opinion**
We have issued an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

**Regularity**
We have issued an unqualified opinion, without modification, in all material respects of expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

# Executive summary (continued)

## Conclusions from our audit testing and audit opinion (continued)

**Matters on which we report by exception**
We are required by the Auditor General for Scotland to report to you if, during our audit, we have found that adequate accounting records have not been kept; the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit. We are yet to finalise our work on the pension disclosures in the Remuneration and Staff Report.
The are no other matters on which we need to report by exception.

**Governance Statement and Performance Report**
We are required to report on whether the information given in the Governance Statement and Performance Report is consistent with the financial statements; and has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.
We have no matters to report in respect of the Annual Governance Statement or the Performance Report.

**Other information**
We are required to report on whether the other information (comprising of the Performance Report and the Accountability Report and the unaudited parts of the Remuneration and Staff Report), is materially inconsistent with the financial statements; is materially inconsistent with our knowledge obtained during the audit; or is materially misstated.
No inconsistencies have been identified and we have issued an unmodified opinion in this respect.

**Whole of Government Accounts (WGA)**
We have not yet received the Technical Guidance Note from Audit Scotland in respect of our work on the SFC's WGA submission. We are unable to commence our work in this area until such instructions have been received.

# Executive summary (continued)

## Wider Scope conclusions

As auditors appointed by the Auditor General of Scotland, our wider scope responsibilities are set out in Audit Scotland's Code of Audit Practice 2021. The Code requirements broaden the scope of the 2023/24 audit and allows us to use a risk-based approach to report on our consideration of the SFC's performance and make recommendations for improvement and, where appropriate, conclude on the SFC's performance.

The Code's wider scope framework is categorised into four areas:

- financial management;
- financial sustainability;
- vision, leadership and governance; and
- use of resources to improve outcomes.

It remains the responsibility of the SFC to ensure that it makes proper financial stewardship of public funds, it complies with relevant legislation, and establishes effective governance of their activities. The SFC is also responsible for ensuring that it establishes arrangements to secure continuous improvement in performance and, in making those arrangements, ensures resources are being used to improve strategic outcomes and demonstrate the economy, efficiency, and effectiveness throughout the use of its resources. These arrangements should be proportionate to the size and type of the SFC, appropriate to the nature of the SFC and the services and functions that it has been created to deliver.

**Wider Scope**

We anticipate having no risks in arrangements to report in relation to the financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes arrangements that the SFC has in place.

Further detail on our Wider Scope work is provided in section 7 of this report including any significant risks identified.

# 02

# Status of the audit

# Status of our audit

We have concluded on our audit work in respect of the financial statements for the year ended 31 March 2024 and there are no matters outstanding of which we are aware that would require modification of our audit opinion.

# 03

## Audit Approach

# Audit Approach

## Changes to our audit approach

There have been no changes to the audit approach we communicated in our Annual Audit Plan, issued on 6 June 2024.

## Materiality

Our provisional materiality at the planning stage of the audit was set at £40m using a benchmark of 2% of gross operating expenditure. Our Performance materiality was set at £28m.

Based on the final financial statement figures and other qualitative factors, the final overall materiality we applied was £41m, final performance materiality: £29m; final clearly trivial threshold: £800k.

## Reliance on internal audit

Where possible we utilise the work performed by internal audit to support our risk assessment and to modify the nature, extent and timing of our audit procedures.

The work undertaken by Internal Audit also informs our wider scope work.

## Use of experts

There has been one change in respect of use of experts, as set out below.

| Item of account | Management Expert | Our expert |
|---|---|---|
| Cash equivalent transfer values of pensions as disclosed in the Remuneration and Staff Report | MyCSP | Deloitte |

# 04

## Significant findings

# Significant findings

## Significant findings, including key areas of management judgement

The significant findings from our audit include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Annual Audit Plan;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 15 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit.

# Significant findings

| | |
|---|---|
| **Management override of controls** | **Description of the risk**<br>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.<br>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. |
| | **How we addressed this risk**<br>We addressed the management override of controls risk by:<br>• reviewing the key areas within the financial statements where management has used judgement and estimation techniques and consider whether there is evidence of unfair bias;<br>• examining any accounting policies that vary from the Government Financial Reporting Manual;<br>• testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; and<br>• considering and testing any significant transactions outside the normal course of business or otherwise unusual. |
| | **Audit conclusion**<br>Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention. |

# Significant findings (continued)

## Qualitative aspects of the SFC's accounting practices

We have reviewed the SFC's accounting policies and disclosures and concluded they comply with the Government Financial Reporting Manual (FReM) 2023/24, appropriately tailored to the SFC's circumstances.

We received draft accounts from SFC on 7 June. They were of good quality and were supported by appropriate working papers.

## Significant matters discussed with management

The following issue was discussed with Management:

**Remuneration and Staff report:**

- SFC is reliant on MyCSP to provide information to support the disclosures in respect of staff remuneration. However, MyCSP has been unable to provide the information in respect of Cash Equivalent Transfer Values (CETV) for six employees who are members for the civil service pension scheme. The delay by MyCSP is because of uncertainty over the impact of McCloud remedy on the CETV. As a consequence of the delay, SFC has been unable to include the CETV pension values and to present them for audit. At the time of preparing this report, SFC has yet to receive the information from MyCSP although we have been told this information should be available by 31 August 2024.
- At the start of our audit we challenged Management to provide us with some specific information to support calculations of the CETV disclosures required. This information would have allowed us to calculate an expected range for the CETV values to help us determine the reasonableness of the information disclosed. However, Audit Scotland subsequently confirmed we would receive a controls assurance report from Deloitte as the auditor's expert to confirm we could rely on the information provided to SFC by MyCSP. We received this report in July 2024.

## Significant difficulties during the audit

During the course of the audit, we did not encounter any significant difficulties and we have had the full co-operation of management.

# Significant findings (continued)

## Wider responsibilities – statutory reporting

We are required to notify the Auditor General when circumstances indicate that a statutory report may be required.

- Section 22 of the Public Finance and Accountability (Scotland) Act 2000 allows us to prepare a report to bring to the attention of the Scottish Parliament and the public, matters of public interest arising during the audit of the SFC.
- Section 23 of the Public Finance and Accountability (Scotland) Act 2000 allows us to initiate an examination into the economy, efficiency and effectiveness with which SFC and their officeholders have used their resources in discharging their functions.

We confirm that no such reports have been prepared or any examinations have been initiated.

## Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data.

At the time of issuing this report, we have not  received guidance from NAO on the 2023/24WGA exercise.

05

# Internal control conclusions

# Internal control conclusions

## Overview of engagement

As part of our audit, we obtained an understanding of SFC's internal control environment and control activities relevant to the preparation of the financial statements, which was sufficient to plan our audit and determine the nature, timing, and extent of our audit procedures. Although our audit was not designed to express an opinion on the effectiveness of SFC's internal controls, we are required to communicate to Audit and Risk Committee any significant deficiencies in internal controls that we identified in during our audit.

## Deficiencies in internal control

A deficiency in internal control exists if:

•A control is designed, implemented, or operated in such a way that it is unable to prevent, detect, and/ or correct potential misstatements in the financial statements; or

•A necessary control to prevent, detect, and/ or correct misstatements in the financial statements on a timely basis is missing

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we have considered SFC's internal controls relevant to the preparation of the financial statements to design audit procedures to allow us to express an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SFC's internal controls or to identify any significant deficiencies in their design or operation.

The matters reported in this section of our report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and which we consider to be of sufficient importance to merit being reported.

If we had performed more extensive procedures on internal control, we might have identified more deficiencies to report or concluded that some of the reported deficiencies need not in fact have been reported.

Our comments in this section should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The deficiencies SFC's internal controls that we have identified as at the date of this report are in set out on the following pages.

## Significant deficiencies in internal control

A significant deficiency in internal control is one which, in our professional judgement, has the potential for financial loss, damage to reputation, or a loss of information which may have implications on the achievement of business strategic objectives. Our view is that observations categorised as a significant deficiency is of sufficient importance to merit the attention of Audit and Risk Committee.

We have not identified any significant deficiencies in the SFC's internal controls as at the date of this report.

## Other observations

We also record our observations on the SFC's internal controls where, in our professional judgement, there is a need to strengthen internal control or enhance business efficiency that do not constitute significant deficiencies in internal control but which we view as being important for consideration by management.

We do not have any other internal control observations to bring to your attention as at the date of this report.

Whether internal control observations merit attention by Audit and Risk Committee and/ or management is a matter of professional judgment, taking into account the risk of misstatement that may arise in the financial statements as a result of those observations.

# Internal control conclusions (continued)

## Other deficiencies in internal control

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

**Description of deficiency**

**Review of fixed asset register and useful life**

SFC's asset register includes both property plant and equipment and intangible assets that have been fully depreciated. The gross book value and accumulated depreciation is reflected in the financial statements with a nil net book value. Assets that are no longer in use should be written out of the asset register and ledger. Assets that are in use should be reviewed to ensure the carrying value is appropriate.

**Potential effects**

Failure to undertake regular asset review exercise may result in assets being incorrectly valued.

**Recommendation**

SFC should conduct regular reviews of its fixed asset register to identify and remove assets no longer operational. Where assets are still in use, SFC should review the useful economic life of the assets to determine a value in use in compliance with IAS 16.

SFC should review the value in use of intangible assets at the end of each accounting period to ensure they are consistent with IAS 36.

**Management response**

We are currently undertaking a review of our fixed assets which will include a review of the useful economic life and the value of intangible assets. We expect to complete this by March 2025.

# Internal control conclusions (continued)

## Follow up on previous internal control points

We set out below an update on internal control points raised in the prior year

### Description of deficiency

**Related parties' transactions – Register of Interest**

Several of the signed declaration forms from the board members had incorrect dates and did not include signatures. Furthermore, the declarations did not always agree to the most recent Register of Interest published on website.

### Potential effects

Failure to update the register of interest may result in conflicts of interest being incorrectly undisclosed when SFC is conducting business. In addition, there is a risk the related party disclosures in the accounts may be incorrect or incomplete.

### Recommendation

SFC should establish robust procedures for maintaining and regularly updating the register of interests.

### 2023/24 update

Our testing identified that in some cases, members did not provide an annual declaration instead sending an email to the governance team to confirm there were no changes to the declarations previously submitted. It is good practice for a signed annual declaration to be obtained for all members to avoid any risk of confusion as the accuracy of and timeliness of declarations being disclosed.

### Description of deficiency

**IT general controls**

There is no formal policy explaining how changes to IT systems should be approved, tested and implemented

### Potential effects

Changes could be implemented without adequate approval and testing. Inadequate segregation of duties compromises the robustness of change management processes.

### Recommendation

A change management policy should be prepared, covering approval, testing and the need for segregation of duties between development and IT operations.

### 2023/24 update

There is no formal policy in place yet in respect of IT Change Management. We understand Management is considering this as part of future governance improvements.

# Internal control conclusions (continued)

## Follow up on previous internal control points

We set out below an update on internal control points raised in the prior year.

**Description of deficiency**

**Loans to Universities – signed agreements**

While testing, we have identified 5 out of 13 samples where loan agreements are not signed, although we have reviewed the email communication between HEI and SFC confirming the written acceptance of the loan agreement.

**Potential effects**

Absence of signed agreements may lead to dispute about the terms and conditions of loans.

**Recommendation**

SFC should have a more formal process in place to have signed agreements documented from the borrower.

**2023/24 update**

No matters arising from our 2023/24 testing. This matter is now closed.

**Description of deficiency**

**IT general controls – User access**

There is no formal process for authorising changes in user access to the ASH SUN finance system.

**Potential effects**

Users could have inappropriate access to the system.

**Recommendation**

Changes in access to SUN system should only be granted when the user’s access request has been authorised by an appropriate officer. These approvals should be stored for future reference.

**2023/24 update**

User access request forms are in place and authorisation sought in advance of access being granted. These are stored for future review. This matter is now closed.

# 06

## Summary of misstatements

# Summary of misstatements

We did not identify any misstatements, whether adjusted or not, above our reporting threshold as at the date of this report.

Our overall materiality, performance materiality, and clearly trivial (reporting) threshold were reported in our Annual Audit Plan, issued on 6 June 2024. Any subsequent changes to those figures are set out in the section 3 of this report.

# Summary of misstatements (continued)

## Disclosure misstatements

We identified the following disclosure misstatements during our audit that have been corrected by management:

**Performance report**:- Inclusion of additional information to cover disclosures required by the FReM:-
- Adoption of going concern basis included in Performance overview section.
- Minor changes to the figures, dates, page numbers, prior year percentages to address errors in the report.

**Remuneration and staff report**:- Inclusion of additional information to cover disclosures required by the FReM:-
- Correction of bandings for senior employees.
- Correction of bandings, CETV figures for senior employees based on revised MyCSP reports (calculated on pro rata basis)

**Related Parties Transactions**:- Inclusion of additional information as set out below:
- Addition to the disclosure of the interests of Board members to bring in line with the Register of Interest published on SFC website.

**Cash Flow Statement**:- Inclusion of additional information to cover disclosures required by the FReM:
- Updating the presentation of the Cash Flow Statement in line with FReM requirements.

There were also adjustments to the annual report and accounts for other minor disclosure, consistency or presentational matters.

# 07

## Wider scope and Best Value

# Commentary on Wider Scope

## Overall Summary

# Commentary on Wider Scope

## Wider scope summary

As auditors appointed by the Auditor General of Scotland, our wider scope responsibilities are set out in the Code of Audit Practice 2021. The Code requirements broaden the scope of the 2023/24 audit and allow us to use a risk-based approach to report on our consideration of the SFC's performance and make recommendations for improvement and, where appropriate, conclude on the SFC's performance.

The Code's wider scope framework is categorised into four areas:

- financial management;
- financial sustainability;
- vision, leadership and governance; and
- use of resources to improve outcomes.

## Overall summary by reporting criteria

From the satisfactory conclusion of our audit work, we have the following conclusions:

| Reporting criteria | Commentary page reference | Identified risks? | Actual risks identified? | Other recommendations made? |
|---|---|---|---|---|
| Financial management | 28 | No | No | No |
| Financial sustainability | 31 | No | No | Yes- see commentary on page 34 |
| Vision, leadership and governance | 35 | No | No | Yes- see commentary on page 39 & 40 |
| Use of resources to improve outcomes | 41 | No | No | No |

# Commentary on Wider Scope

## Financial management

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

# Financial management (continued)

## Our overall assessment

| Area assessed | Our findings | Our judgements | Risks identified |
|---|---|---|---|
| Financial management culture | SFC's budget setting and budget monitoring processes operated during the year in line with agreed procedures. Senior management and the Board continued to receive regular and accurate financial information on SFC's financial position during the year. This allowed action to be taken to address emerging financial pressures.<br><br>SFC has sufficient operational capacity to provide the financial support needed and have a number of fully-qualified and appropriately experienced finance professionals in post.<br><br>SFC has received positive feedback from internal audit following reviews of the arrangements in place for Financial Management and the Distribution of Grant Funding. | SFC has appropriate arrangements in place for financial management, including regular budget monitoring and reporting. | No significant issues identified |
| Accountability | The Board of SFC has overall responsibility for ensuring financial reporting is robust, and supports its commitment to transparency, accountability and strategic oversight.<br><br>The Finance Committee is expected to be a key part of the overall accountability framework. It meets every two months to scrutinise the financial performance of the organisation. This provides an opportunity for challenge of year-to-date spending by Executives and Non-Executives.<br><br>The Executive team and Scottish Government receive regular and accurate financial information on SFC's financial position. This includes monthly budget monitoring information and progress in delivering saving plans.<br><br>SFC reported an underspend for FY23-24 of £615k against a budget of approximately £2bn. There is a good level of understanding of the reasons for this underspend and of the areas where financial pressures remain. | SFC has appropriate arrangements in place to ensure accountability to its Board and the Scottish Government. | No significant issues identified |

# Financial management (continued)

## Our overall assessment

| Area assessed | Our findings | Our judgements | Risks identified |
|---|---|---|---|
| Arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption | The Board of SFC is responsible for the prevention and detection of fraud, error and other irregularities, bribery and corruption. As such, the Board has determined the arrangements needed to ensure its affairs are managed in accordance with proper standards of conduct. The arrangements are set out in approved policies including the Code of Conduct for staff and the Whistleblowing policy.<br><br>Policies are subject to regular review. The most recent review and update of the Whistleblowing policy was undertaken in August 2023.<br><br>Instances of actual or attempted fraud are investigated. The controls within the main financial systems are operating effectively and are subject to review by Internal Audit.<br><br>An annual update on whistleblowing and fraud is provided to the Audit and Risk Committee. | SFC has appropriate arrangements in place for the prevention and detection of fraud, error and other irregularities, bribery and corruption. | No significant issues identified |

# Commentary on Wider Scope

## Financial sustainability

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

# Financial sustainability (continued)

## Our overall assessment

| Area assessed | Our findings | Our judgements | Risks identified |
|---|---|---|---|
| Financial planning | SFC and the colleges and universities it funds continue to face financial challenges including the impact of rising pay, pensions and running costs and inflation.<br><br>SFC has approved a new medium term financial plan covering the period from 2024-25 to 2028-29. This plan outlines the financial position for the organisation and sets out the assumptions underpinning four areas:<br>- Future income forecasts<br>- Future Cost pressures<br>- Potential funding gaps<br>- Ways to align resources with strategic priorities.<br><br>The plan underpins how SFC will address pressures in relation to its own running costs over the five year period.<br><br>It is difficult to forecast the financial future with a high degree of reliability because of the uncertainties around the economic environment and possible changes and funding made by the Scottish Government. Recognising this, SFC has built in sensitivity analysis to its financial plan. This provides financial outlooks based on three likely scenarios: optimistic, realistic, pessimistic. It allows SFC to consider the options open to it in those scenarios so that a range of plans can be developed.<br><br>The first iteration of the plan has provided management with a broader perspective of the potential operating environment. Further work is being done now on specific Higher and Further Education budgets. This will allow SFC to update and refine the plan as the financial environment becomes clearer over time. SFC undertakes this financial planning in collaboration with the colleges and universities and reports regularly to the Finance Committee. | SFC has appropriate arrangements in place for financial planning. | No significant issues identified.<br><br>See page 34 for follow up of our prior year recommendation made to the SFC. |

# Financial sustainability (continued)

## Our overall assessment

| Area assessed | Our findings | Our judgements | Risks identified |
|---|---|---|---|
| Financial planning | SFC is now working to create a data portal which will support a more streamlined approach to financial planning by allowing for the:<br>• automation of the consolidation of returns from the universities and colleges<br>• creation of financial dashboards for institutions and<br>• development of financial modelling.<br><br>SFC is also working to enhance the financial assessment methodology it uses including developing primary financial health indicator ranges and a structured financial health scoring strategy.<br><br>SFC is considering introducing a Finance Business Partnering approach to enhance Governance, Infrastructure and Sustainability Team (GIST) engagement that identifies the financial health and governance risk within institutions early on.<br><br>SFC is also formalising and increasing the frequency of the use of a “case conference” approach; developing policies on colleges’ surplus/deficit and cash reserves; and documenting Governance, Infrastructure and Sustainability Team (GIST)’s support and challenge provided to institutions in each financial health and governance risk category.<br><br>Looking further ahead, SFC plans to enhance internal reporting by including the financial health scores, financial dashboards and financial modelling as part of a Management Information Pack for the Executive Team. | | |

# Financial sustainability (continued)

## Follow up of previously-reported recommendations

In September 2023 we reported 1 recommendation to the SFC to address risks identified from our Wider Scope audit for financial sustainability. As part of our work in 2023/24, we followed up the progress made by the SFC against the recommendations made and determined whether the risk remained during the year.

| | Financial sustainability finding as previously reported | Management response and implementation timeframe | Work undertaken and judgements made in 2023/24 | Conclusions reached |
|---|---|---|---|---|
| 1 | **Medium term financial planning- Level 3**<br><br>SFC should continue to develop its reporting on financial sustainability across the university and college sectors to support the preparation of longer-term financial planning and sustainability. | **Management's response**<br><br>Management accepts this recommendation.<br><br>We are working to enhance and develop our monitoring and reporting on financial sustainability through increased use of benchmarks and risk-based focus to strengthen forward looking analysis on longer term financial planning.<br><br>**Responsible officer**<br>Ursula Lodge, DD Institutional Sustainability and Capital<br><br>**Implementation date**<br>31 March 2024 | **Progress against the recommendation**<br><br>We have reviewed the new medium to long term financial plan developed by SFC covering the period from 2024-25 to 2028-29. Recognising the inherent uncertainties arising from the assumptions made in forming the plan, sensitivity analysis has been included reflecting three possible scenarios: optimistic, realistic, pessimistic.<br><br>This has improved the robustness of SFCs financial planning and provides additional information for management and the Board to make informed decisions going forward.<br><br>The colleges and universities continue to operate in a tight fiscal environment. Recognising this, SFC has taken steps to increase levels of engagement with, and reporting on, the financial sustainability of both sectors. | **Conclusions**<br><br>The arrangements in place for financial planning do not present a significant risk to SFC. There is evidence management are appropriately considering the medium to long term financial position.<br><br>SFC should continue to develop its approach to planning and reporting on financial sustainability through future iterations of the plan. Assumptions made should be revisited regularly to reflect any significant changes impacting the sectors. |

# Commentary on Wider Scope

## Vision, leadership and governance

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

# Vision, leadership and governance (continued)

## Our overall assessment

| Area assessed | Our findings | Our judgements | Risks identified |
|---|---|---|---|
| Clarity of plans to implement the vision | SFC published its latest strategic plan 2022-2027 in November 2022. This set out the vision for SFC and its priorities for the five-year period.<br><br>The plan set out the four strategic objectives for the organisation as:<br>1.Enabling people to learn and flourish<br>2.Generating new ideas and diffusing knowledge<br>3.Building a responsive, coherent, sustainable system<br>4.Making SFC an excellent organisation<br><br>The plan provides further details on each objective and has identified priority areas of focus for activity within each  of them. | SFC's strategic plan sets out a clear vision and strategy for the organisation.. | No significant issues identified |
| Strategy and priorities | SFC has a Delivery Plan which provides a high-level overview of the activity that helps SFC work to deliver its strategic objectives.<br><br>SFC published its delivery plan for the period  2022-24 in March 2022. This Delivery Plan described how SFC would achieve the ambition, objectives and priorities set out in the Strategic Plan 2022-27 during the first two years of that strategy.<br><br>SFC has presented the 2024/25 Delivery Plan to the Board in May 2024. This builds on the plan to 2024. Each strategic goal is linked to the objectives that support delivery over the timeframe and responsibility has been allocated to relevent people to ensure accountability is maintained. Updates on delivery plan will be shared with the Board on a quarterly basis. | SFC's strategy and priorities are clearly set out in its delivery plan. | No significant issues identified. |

# Vision, leadership and governance (continued)

## Our overall assessment (continued)

| Area assessed | Our findings | Our judgements | Risks identified |
|---|---|---|---|
| Governance arrangements | The corporate governance framework within SFC is centred on the Board, supported by six committees including the Audit and Risk Committee and the Finance Committee.<br><br>An Internal Board effectiveness review was undertaken during 2023/24 with the outcome presented to the Board in March 2024. The report provided a positive view about the way in which the Board operates. Following this review, SFC put in place a Board Development and Engagement Plan which was formally approved in June 2024 to further strengthen the Board's operation.<br><br>Alongside this, a review of remits for all Committee started in October 2023. Revised terms of reference and Standing Orders for each committee were then formally approval by the Board in June 2024.<br><br>An external Board effectiveness review is due to be undertaken in 2024-25 but has yet to be commissioned.<br><br>All Board member have regular appraisals and the feedback from these has informed the Board development and engagement plan.<br><br>SFC had two Board members appointed in November 2023 on an interim basis over a six month period. They received full Board member induction and the relevent inductions for the committees they joined were also put in place. Appointments to committees were approved by the Board to reflect the skills and experience of the individuals. | Governance arrangements are appropriate and support oversight of SFC's activities and finances. SFC has also taken on-board the PY recommendations and progressing in the right direction.<br><br>SFC is taking actions to improve its governance of cyber security. SFC should continue work to review and improve its governance of cyber security. | No significant risks identified.<br><br>See page 39 & 40 for follow up of our prior year recommendation made to the SFC. |

# Vision, leadership and governance (continued)

## Our overall assessment (continued)

| Area assessed | Our findings | Our judgements | Risks identified |
|---|---|---|---|
| Governance arrangements | As part of its commitment to ensuring governance is appropriate and robust, a programme of work has commenced to review and update the suite of policies which underpin the arrangements in place. This includes:<br>• Whistleblowing<br>• Counter Fraud Policy and Code of Conduct,<br>• Gifts, hospitality and awards<br>• Anti Bribery and<br>• Register of Interests.<br>Board members have been consulted on the proposed changes to the policies which will be presented to the Audit and Risk Committee meeting before being brought to the Board for formal approval in September 2024.<br><br>SFC's Internal Audit team undertook a follow up review of Cybersecurity and IT Risk Assessment in November 2023 to ensure actions were in place and effective following their 2022 review. The follow up recognised some improvement in SFC's cyber security arrangements but identified further actions as necessary to support the maturity of the organisation's approach. The follow up made nine recommendations of which six were considered to expose the organisation to moderate operational risk. The remainder were low operational risk. Responsibility for progressing these actions rests with the Executive Team with oversight from the Audit and Risk Committee. | | |
| Financial and performance information | SFC had a detailed Delivery plan for the 2022-2024 period and the updated plan for 2024-25 has recently been launched.<br>Performance against the plan is reported quarterly to the Executive team and to Board. The performance reporting covers progress made against the key activities set out in the Delivery Plan using a RAG status to identify activities as complete (blue); on track to deliver to deadline (green); on track to deliver but past original deadline (amber); or at risk of non-delivery (red) with a brief commentary against each activity to explain the reasons for the performance.<br>The reporting shows SFC is making good progress against the majority of objectives. However, action is needed in respect of a small number of activities which have been impacted by constrained resources. | SFC has demonstrated improvement in providing adequate information to allow effective scrutiny of its performance and finances and should further continue to ensure that strategic and delivery plans are linked to performance measures. | No significant risks identified.<br><br>See page 40 for follow up of our prior year recommendation made to the SFC. |

# Vision, leadership and governance (continued)

## Follow up of previously-reported recommendations

In September 2023 we reported 3 recommendations to the SFC to address risks identified from our Wider Scope audit for vision, leadership and governance. As part of our work in 2023/24, we followed up the progress made by the SFC against the recommendations made and determined whether the risk remained during the year.

| | Vision, leadership and governance finding as previously reported | Management response and implementation timeframe | Work undertaken and judgements made in 2023/24 | Conclusions reached |
|---|---|---|---|---|
| 1 | **Governance arrangements:- Level 2**<br><br>SFC needs to complete the delayed governance review to refresh its formal governance framework, and further clarify roles and responsibilities. SFC needs to complete the delayed annual Board evaluation and from this develop and implement a refreshed training and development plan for Board and Committee members. Board and committee members should have regular updates on Board development plan progress on implementation and delivery. | **Management Response:**<br>Management accepts this recommendation. We are expecting to deliver the governance review to Board members shortly; we are planning to complete the next Board evaluation by Spring 2024; and this will inform the Board development plan and clarify the process for reporting progress on its implementation and delivery.<br><br>**Responsible officer**<br>Louisa Baker, Deputy Director Governance & Planning<br><br>**Implementation timescale**<br>31 March 2024 | **Progress against the recommendation**<br>An internal Board Effectiveness review was carried out in 2023-24 and was reported to the Board in March 2024.<br><br>Board development and engagement plan has been developed, agreed by the Board in June 2024 and is currently being implemented. A detailed plan to be laid out outlining key dates for activities and institutional visits.<br><br>An external Board effectiveness review is due to be undertaken in 2024-25 but has yet to be commissioned.<br><br>The review of all Board Committee remits started in October 2023 and is now complete, with revised Standing Orders for each committee approval by the Board in June 2024.<br><br>All required Board member appraisals have been completed and comments fed into the Board development and engagement plan.<br><br>SFC had two interim Board members appointed in November 2023 for a six month period. Full Board member induction was put in place and inductions for the committees they joined were also put in place. Appointments to committees were approved by the Board.<br><br>Work has commenced on the review of SFC Corporate Governance policies (whistleblowing, Counter Fraud and Financial Conduct, Gifts, hospitality and awards, Anti Bribery and Register of Interests). | **Conclusions**<br>No significant issues identified.<br><br>Given that the work is ongoing, SFC should continue work to improve their governance arrangements. |

# Vision, leadership and governance (continued)

## Follow up of previously-reported recommendations (continued)

| | Vision, leadership and governance finding as previously reported | Management response and implementation timeframe | Work undertaken and judgements made in 2023/24 | Conclusions reached |
|---|---|---|---|---|
| 2 | **Governance arrangements - Cyber Security:- Level 2**<br><br>SFC should continue work to review and improve its governance of cyber security. | **Management Response:**<br>Management accepts this recommendation. We are delivering a programme of work to enhance our cyber governance and IT resilience.<br>.<br>**Responsible officer**<br>Steve McDonald, Chief Information Officer<br><br>**Implementation timescale**<br>31 March 2024 | **Progress against the recommendation**<br>Internal audit team performed a further review of Cybersecurity and IT Risk Assurance in November 2023, following a review in 2022. The internal audit review identified a significant improvement in SFC cyber security posture with areas identified to support the further maturity of the organisation's approach. It was noted that the report contained 9 recommendations, 3 of which were considered to expose the organisation to minor operational risk. The remaining 6 actions were considered to expose the organisation to moderate operational risk, none of these recommendations are due to be implemented. | **Conclusions**<br>No significant risks identified.<br><br>SFC is taking actions to improve its governance of cyber security. Since the recommendations are yet to be implemented, SFC should further continue work to review and improve its governance of cyber security. |
| 3 | **Financial and performance information - Performance measures**<br><br>SFC should work to further improve content of its performance reports and to ensure it sets clear performance targets and measures in its new strategic plan | **Management's response**<br>Management accepts this recommendation. We are recruiting Planning resource to take this forward.<br><br>**Responsible officer**<br>Louisa Baker, Deputy Director Governance & Planning<br><br>**Implementation date:**<br>31 March 2024 | **Progress against the recommendation**<br><br>SFC has issued a more detailed Delivery plan for 2024-25 which was recently approved. This highlights the objectives for each Strategic aim going forward. These include a delivery timeframe and lead director for each objective.<br><br>This is an improvement upon prior performance reports and delivery plans, with objectives that link directly to strategic aims, and which have specific deliverables and dates attached. | **Conclusions**<br>No significant risks identified.<br><br>SFC should continue to ensure that its strategic and delivery plans are linked to performance measures and are presented effectively in the performance report. |

# Commentary on Wider Scope

## 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.

# Use of resources to improve outcomes (continued)

## Our overall assessment (continued)

| Area assessed | Our findings | Our judgements | Risks identified |
|---|---|---|---|
| Resources deployed to improve strategic outcomes | SFC sets out the outcomes delivered for their total funding in internal performance reporting. SFC also ensures funding to individual institutions delivers on the specific measures included in the respective Outcome Agreements. This means the money spent by the SFC can be traced through to developments in the education sector in accordance with the agreements set out between Scottish Government and SFC and also between SFC and the education bodies.<br>SFC’s new financial plans map out expenditure and planned outputs for the coming years with greater clarity and risk mitigation against potential funding gaps. | SFC has attempted to demonstrate improvement in linking the financial plans to strategic outcomes. | No significant risks identified. |
| Needs of service users being met | SFC conducts and reports on a college student satisfaction survey to support the quality of service from the funding provided to colleges. The survey results are published the results of students' survey on its website each year. The 2024 survey results will be published in October 2024.<br>The results are used by SFC to measure performance and help inform strategic decision making. | SFC has appropriate arrangements in place to meet the needs of service users | No significant risks identified. |
| Arrangements to deliver continuous improvements in priority services | SFC regularly publishes reports on how services are improving at universities and colleges level via Outcome agreements and reports on widening access. The last report was issued in July 2023.<br><br>The Accountable Officer provides assurance on SFC’s Best Value arrangements through internal performance reporting.<br><br>Best Value self-assessment exercises have been undertaken covering a range of areas. The most recent was in 2021 and no material issues or areas of non-compliance were noted from the exercise. The outcome of these exercises together with any areas for improvement and the agreed actions are reported to the Audit and Risk Committee which then receives progress reports outlining delivery of the agreed actions. The Committee received progress updates on 2021 actions in August 2022 and September 2023. These exercises and the follow up on progress is referenced in SFC's annual report on Best Value. | SFC has appropriate arrangements in place to continue delivering continuous improvements in priority services. | No significant risks identified. |

# Commentary on Best Value

## Best Value

# Best Value

## Best Value in central government bodies

The Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to meet their Best Value obligations. 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; and
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirements and to contribute to the achievement of sustainable development.

Ministerial guidance for Accountable Officers in public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

The seven Best Value characteristics have been recently regrouped to reflect the key themes which will support the development of an effective organisational context from which public services can deliver key outcomes and ultimately achieve best value:

1. Vision and leadership
2. Governance and accountability
3. Effective use of resources
4. Partnerships and collaborative working
5. Working with communities
6. Sustainability
7. Fairness and equality

We have used a risk-based approach that is proportionate to the size and type of the body, to assess whether the SFC has made proper arrangements for securing Best Value. We have also followed up on previously reported Best Value findings, where applicable, and have assessed the pace and depth of improvement implemented by the SFC.

# Best Value (continued)

## Best Value in central government bodies – overall conclusion

SFC assesses its compliance with the principles of Best Value by carrying out periodic self-assessment exercises. The self-assessment measures SFC against the Best Value characteristics an organisation should be able to demonstrate, as identified by the Scottish Government. The 2021 exercise identified 14 actions to enhance areas identified as under developed, two of which were agreed to be completed in August 2022 Audit and Risk Committee meeting.

SFC presented a Best Value progress update report to the September 2023 meeting of the Audit and Risk Committee. This noted that, since the previous update of August 2022 SFC has developed and published its 5-year Strategic Plan and 2-year Delivery Plans which will support SFC to deliver an ambitious transformation programme. These plans include actions to embed a culture of continuous improvement throughout the organisation. SFC has incorporated Best Value characteristics into key areas of the Delivery Plan to ensure these are properly embedded across all SFC activities.

SFC has demonstrated progress against the remaining open actions from the 2021 survey and provided assurance on where they will be addressed in regular reporting on the Delivery Plan. Against all open actions, good progress continues to be made, and no material issues or areas of non-compliance have been noted.

Given the completion of several of actions and the integration of the remaining open actions into SFC's Delivery Plan activity, SFC has proposed that the report will be the final report on the 2021 Best Value Assessment. However, Best Value Assessment 2024-25 has been undertaken to reflect 2021 guidance and will be presented to Board in September 2024. Future reporting on any areas for improvements will be brought together to form a Best Value Improvement Plan and will be reported to the Board annually.

SFC should continue to review these open actions against best practice in demonstrating Best Value, to ensure SFC clearly demonstrate progress towards the seven themes and specific characteristics set out by the Scottish Government

# Appendices

# Appendix A: Draft management representation letter

Karen Murray

Forvis Mazars LLP

One St Peter's Square

Manchester

M2 3DE

Date 2024

Dear Karen,

**Scottish Funding Council - Audit for the Year Ended 31 March 2024**

This representation letter is provided in connection with your audit of the financial statements of Scottish Funding Council (the Council) for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 2005 and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

**My responsibility for the financial statements and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Further and Higher Education (Scotland) Act 2005 and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).

**My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Accountable Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

**Accounting records**

I confirm that all transactions undertaken by the Council have been properly recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

**Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

# Appendix A: Draft management representation letter

**Accounting estimates, including those measured at fair value**

I confirm that the methods, significant assumptions and the data used by the Council in making the accounting estimates, including those measured at fair value are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.

**Regularity of Expenditure and Income**

I confirm that, in all material respects, expenditure was incurred, and income applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.

**Contingencies**

There are no material contingent losses including pending or potential litigation that should be accrued where:

• information presently available indicates that it is probable that an asset has been impaired, or a liability had been incurred at the balance sheet date; and

• the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Further and Higher Education (Scotland) Act 2005 and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).

**Laws and regulations**

I confirm that I have disclosed to you all those events of which I are aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

We have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

**Fraud and error**

I acknowledge my responsibility as Accountable Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:

• all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;

• all knowledge of fraud or suspected fraud affecting the Council involving:

- management and those charged with governance;

- employees who have significant roles in internal control; and

- others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

**Related party transactions**

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the Further and Higher Education (Scotland) Act 2005 and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I are aware.

**Impairment review**

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the statement of financial position date. An impairment review is therefore not considered necessary.

# Appendix A: Draft management representation letter

**Charges on assets**

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.

The loans issued to Higher Education institutions and West Lothian College have been disclosed at cost as measuring these at amortised cost, as required by IFRS 9, would not be materially different from cost.

**Future commitments**

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

**Right of Use assets and lease liabilities**

I confirm that I have satisfied myself that the key judgments and assumptions made in valuing Right of Use assets and corresponding lease liabilities are reasonable and in accordance with IFRS 16. I am satisfied that assumptions around lease terms of implicit leases are reasonable.

**Sponsor body**

I confirm that the sponsor body for Scottish Funding Council is the Scottish Government.

**Other Matters**

I confirm in relation to the following matters that:

• COVID-19 – I have assessed the continued impact of the COVID-19 Virus pandemic on the Council and the financial statements, including the impact of mitigation measures and uncertainties, and am satisfied that the financial statements and supporting notes fairly reflect that assessment.

• Ukraine – I confirm that I have carried out an assessment of the potential impact of the continued conflict in Ukraine on the Council and there is no significant impact on the Council's operations from restrictions or sanctions in place.

• I confirm that I have assessed the impact on the Council of the on-going Global Banking challenges, in particular whether there is any impact on the Council's ability to continue as a going concern, and on the post balance sheet events disclosures.

**Going concern**

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

**Performance related allocations**

I confirm that I am not aware of any reason why the Council's funding allocation limits would be changed.

**Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Further and Higher Education (Scotland) Act 2005 and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM), require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

**Performance Report**

I confirm that the Performance Report has been prepared in accordance with the requirements of the FReM to the extent they apply in Scotland and the information is consistent with the financial statements.

# Appendix A: Draft management representation letter

**European Funding**

There is significant uncertainty over the outcome of the Scottish Funding Council's outstanding European Social Fund (ESF) claims and recognition of ESF income receivable in the financial statements is not appropriate. Any income is treated on a cash basis.

**Financial Transactions**

Financial transactions funding has been recognised in the accounts as grant-in-aid funding as the Scottish Government has agreed that this will not require repayment.

**Governance Statement**

I am satisfied that the Governance Statement fairly reflects the Council's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the Governance Statement.

**Remuneration and Staff Report**

The Remuneration and Staff Report has been prepared in accordance with the requirements of the FReM to the extent they apply in Scotland and all required information of which I am aware has been provided to you.

**Annual Report**

The disclosures within the Annual Report and the Remuneration and Staff Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements.

**Other Representations**

I confirm that all provisions required under IAS 37 have been included in the financial statements.

**Unadjusted misstatements**

I confirm that there are no uncorrected misstatements.

Yours sincerely,

Chief Executive and Accountable Officer

# Independent auditor’s report to the members of Scottish Funding Council and the Auditor General for Scotland and the Scottish Parliament

## Reporting on the audit of the financial statements

**Opinion on financial statements**
We have audited the financial statements in the annual report and accounts of Scottish Funding Council for the year ended 31 March 2024 under the Further and Higher Education (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers’ Equity and notes to the financial statements, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).

In our opinion the accompanying financial statements:

- give a true and fair view of the state of the body’s affairs as at 31 March 2024 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 FReM; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

**Basis for opinion**
We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of our report. We were appointed by the Auditor General on 18 May 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. We are independent of the body in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern basis of accounting**
We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the body’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the body's current or future financial sustainability. However, we report on the body's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland Website.

**Risks of material misstatement**

We report in our separate Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

**Responsibilities of the Accountable Officer for the financial statements**

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the body's operations.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using our understanding of the central government sector to identify that the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers are significant in the context of the body;
- inquiring of the Accountable Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the body;
- inquiring of the Accountable Officer concerning the body's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the body's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor’s responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

**Reporting on regularity of expenditure and income**

**Opinion on regularity**

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

**Responsibilities for regularity**

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. In addition to our responsibilities in respect of irregularities explained in the audit of the financial statements section of our report, we are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

**Reporting on other requirements**

**Opinion prescribed by the Auditor General for Scotland on audited parts of the Remuneration and Staff Report**

We have audited the parts of the Remuneration and Staff Report described as audited. In our opinion, the audited parts of the Remuneration and Staff Report have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

**Other information**

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the Performance Report and the Accountability Report excluding the audited parts of the Remuneration and Staff Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

# Appendix B: Draft audit report

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

**Opinions prescribed by the Auditor General for Scotland on Performance Report and Governance Statement**
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

**Matters on which we are required to report by exception**
We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

**Conclusions on wider scope responsibilities**
In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

**Use of our report**
This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Karen Murray, Partner
For and on behalf of Forvis Mazars LLP

One St Peter's Square
Manchester
M2 3DE
September 2024

# Appendix C: Confirmation of our independence

We communicate any matters which we believe may have a bearing on our independence or the objectivity of Forvis Mazars LLP and the audit team. As part of our ongoing risk assessment, we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We confirm that no new threats to independence have been identified since issuing our Annual Audit Plan and therefore we remain independent.

# Appendix C: Confirmation of our independence (continued)

## Fees for work as the SFC's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Annual Audit Plan presented to the Audit and Risk Committee on 6 June 2024. Having completed our work for the 2023/24 financial year, we can confirm that our fees are as follows:

| Area of work | 2023/24 fees | 2022/23 fees |
|---|---|---|
| Auditor remuneration | £99,380 | £93,750 |
| Pooled costs | £1,060 | (£1,480) |
| Contribution to PABV costs | £0 | £0 |
| Audit support costs | £0 | £2,660 |
| Sectoral cap adjustment | £6,520 | £5,950 |
| **Total fees** | £106,960 | £100,880 |

## Fees for other work

We confirm that we have not undertaken any non-audit services for the SFC in the year.

# Appendix D: Other communications

| | Other communication | Response |
|---|---|---|
| | Compliance with Laws and Regulations | We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations<br>We have obtained written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed. |
| | External confirmations | We did not experience any issues with respect to obtaining external confirmations. |
| | Related parties | We did not identify any significant matters relating to the audit of related parties. We have obtained written representations from management confirming that:<br>a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and<br>b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework. |
| | Going Concern | We have not identified any evidence to cause us to disagree with Accountable Officer that SFC will be a going concern, and therefore we have not identified any evidence to cause us to consider that the use of the going concern assumption in preparation of the financial statements is not appropriate.<br>We have obtained written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements. |

# Appendix D: Other communications (continued)

| | Other communication | Response |
|---|---|---|
| | Subsequent events | We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.<br><br>We have obtained written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed. |
| | Matters related to fraud | We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition, we have assessed the adequacy of the SFC's arrangements for preventing and detecting fraud or other irregularities as part of the wider scope audit and concluded that they are [not] sufficiently designed and implemented.<br><br>We have obtained written representations from management, and where appropriate Those Charged With Governance, confirming that:<br><br>a) they acknowledged their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;<br><br>b) they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud;<br><br>c) they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:<br><br>i. Management;<br><br>ii. Employees who have significant roles in internal control; or<br><br>iii. Others where the fraud could have a material effect on the financial statements; and<br><br>d) they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others. |

# Appendix D: Other communications (continued)

| | Other communication | Response |
|---|---|---|
| | National Fraud Initiative | The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland and overseen by the UK's Cabinet Office, designed to prevent and detect fraud. The NFI uses data analytics to compare information held on individual by different public bodies to highlight the existence of fraud or error.<br><br>NFI exercise only runs once every two years, recent one completed for FY 2022-23. As per the last progress reported to Audit Scotland on 15 March 2024, only one potential duplicate payment remains open for approx. £1k. |

# Appendix E: Wider scope ratings

We need to gather sufficient evidence to support our commentary on the SFC's arrangements and to identify and report on any r isks. We will carry out more detailed work where we identify significant risks. Where significant risks are identified we will report these to the SFC and make recommendations for improvement. In addition to local risks, we consider challenges that are impacting the public sector as a whole.

We have assigned priority rankings to each of the risks identified to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. The table below describes the meaning behind each rating that we have awarded to each wider scope area based on the work we have performed.

| Rating | Description |
|---|---|
| **Level 1** | The identified risk and/or significant deficiency is critical to the business processes or the achievement of business strategic objectives. There is potential for financial loss, damage to reputation or loss of information. The recommendation should be taken into consideration by management immediately. |
| **Level 2** | The identified risk and/or significant deficiency may impact on individual objectives or business processes. The audited body should implement the recommendation to strengthen internal controls or enhance business efficiency. The recommendations should be actioned in the near future. |
| **Level 3** | The identified risk and/or significant deficiency is an area for improvement or less significant. In our view, the audited body should action the recommendation, but management do not need to prioritise. |

# Contact

## Forvis Mazars

**Karen Murray**
Partner
Tel: ++44 (0)7721 234 043
karen.murray@mazars.co.uk

One St Peter's Square
Manchester
M2 3DE