



Annual Audit Report

Scottish Funding Council – year ended 31 March 2025

August 2025

Scottish Funding Council
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15 August 2025

Dear Committee Members and the Auditor General for Scotland,

Annual Audit Report – Year ended 31 March 2025

We are pleased to present our Annual Audit Report for the Scottish Funding Council (SFC) for the year ended 31 March 2025. The purpose of this report is to summarise our audit findings and conclusions.

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ("the Code"). This report is intended solely for management, and the Audit and Risk Committee, as Those Charged With Governance, for the purpose of communicating certain matters that, in our professional judgement, are relevant to your oversight of the financial reporting process. Except where required by law or regulation, it should not be used, quoted or made available to any other parties without our prior written consent.

We appreciate the courtesy and co-operation extended to us by the Scottish Funding Council throughout our audit. We would be happy to discuss the contents of this report, or any other matters regarding our audit, with you in more detail.

Yours faithfully

Karen Murray

Forvis Mazars LLP

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This document is to be regarded as confidential to Scottish Funding Council. It has been prepared for the sole use of Audit and Risk Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

01

Executive Summary

Executive summary

Scope

We have been engaged to audit the financial statements of Scottish Funding Council for the year ended 31 March 2025 which are prepared in accordance with the Government Financial Reporting Manual 2024-25.

We have conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs'), relevant ethical and professional standards, and the requirements set out in the 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.

Audit status

Our audit procedures are now complete for the year ended 31 March 2025.

Areas of focus and audit approach, and significant findings

We have not made any changes to our initial risk assessment and planned audit approach that was communicated to the Audit and Risk Committee in our Annual Audit Plan.

Significant control deficiencies

We did not identify any significant deficiencies in internal control. Appendix A sets out internal control recommendations for non-significant control observations.

Audit misstatements

We have not identified any misstatements, adjusted or unadjusted, above our reporting threshold to date.

Executive summary (continued)

Audit opinion

At the time of issuing this report, we have issued an unqualified opinion, without modification, as set out in Appendix C.

Wider scope

We have identified no significant wider scope risks 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 details have been provided in section 'Wider scope and Best Value' of this report.

Best Value

We have identified no risks in arrangements to report in relation to the vision and leadership; governance and accountability; effective use of resources; partnerships and collaborative working; working with communities; sustainability; and fairness and equality arrangements that the SFC has in place. Further details have been provided in section 'Wider scope and Best Value' of this report.

Regularity opinion

We have issued an unqualified regularity opinion, meaning that in our opinion, in all material respects the expenditure and income recognised in the financial statements have been applied or incurred in accordance with any applicable enactments and guidance issued by the Scottish Ministers. Our proposed regularity opinion is included in the draft auditor's report in Appendix C.

Performance Report and Governance Statement opinion

We have no matters to report in respect of the Annual Governance Statement or the Performance Report preparation as they are consistent with the financial statements and has been prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers. Our proposed Performance Report and Governance Statement opinion is included in the draft auditor's report in Appendix C.

Matters on which we report by exception

We are required by the Auditor General for Scotland to report to you if, during the course of our audit, we have found 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. There are no other matters on which we need to report by exception.

Executive summary (continued)

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 in the course of the audit; or is materially misstated. No inconsistencies have been identified. We have issued an unmodified opinion in this respect.

Reporting to the group auditor

We have not yet received the Group Audit Instructions from NAO 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.

Qualitative aspects of SFC's accounting practices

We have reviewed SFC's accounting policies and disclosures and conclude they comply with the Government Financial Reporting Manual (FReM) 2024/25, appropriately tailored to the SFC's circumstances.

Draft accounts were received from the SFC on 9th June 2025. They were of a good quality and were supported by appropriate working papers.

Significant matters discussed with management

The following issue was discussed with Management and remains outstanding at the time of preparing this report:

Remuneration and Staff report:

SFC is reliant on MyCSP to provide the necessary pension information to support disclosures in the Remuneration and Staff Report. This is in relation to the Cash Equivalent Transfer Values (CETV) for seven employees who are members of the Civil Service Pension Scheme. As of the date of this report, MyCSP has not provided the required CETV data. As a consequence of the delay, SFC has been unable to include the CETV pension values in the Remuneration and Staff Report.

We have discussed this issue with management and we are aware that SFC officers have been in regular contact with MyCSP to obtain the information. Once received, and before the information is provided to us for audit, management will need to engage with MyCSP to determine whether they are satisfied with the accuracy and reliability of the CETV calculations provided by MyCSP.

Executive summary (continued)

Significant difficulties during the audit

We have not encountered any significant difficulties, and we have had the full co-operation of management.

Other matters of significance

We encountered no significant difficulties during our audit and had no significant disagreements with management. There was effective co-operation and communication between Forvis Mazars, management, and the Audit and Risk Committee during our audit. All requested information and explanations were provided to us.

Other matters we are required by ISA (UK) 260 *Communication with Those Charged with Governance* to communicate to you have been set out in Appendix E.

Status of our audit

Status of our audit

Our audit work is complete and there are no matters of which we are aware that would require modification of our audit opinion.

Audit approach and risk summary

Audit approach and risk summary

Changes to our audit approach

There have been no changes to the audit approach we communicated in our Annual Audit Plan, issued on 28 February 2025.

Materiality

Our provisional materiality at the planning stage of our audit was set at £41m using a benchmark of 2% as set out in the Annual Audit Plan. Our performance materiality was set at £29m with the clearly trivial threshold being £800k.

There have been no changes to the materiality levels we communicated in the Annual Audit Plan.

Audit approach and risk summary (continued)

Significant risks	Fraud risk	Judgement	Error	Substantive audit procedures	Tests of controls	Misstatement identified	Control recommendations	Conclusion	Page ref to finding
Management override of controls	Yes	Yes	No	Yes	No	No	No	Risk is satisfactorily addressed.	15

Significant findings

Significant findings

The significant findings from our audit include our conclusions regarding the significant risks we identified and other key areas of judgement, which are set out in this section.

Significant risks

Management override of controls

Description of the risk

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. You should assess this risk as part of your oversight of the financial reporting process.

How we addressed this risk

We addressed this risk through our audit work:

- 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;
- examining any accounting policies that vary from the Government Financial Reporting Manual;
- testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; and
- considering and testing any significant transactions outside the normal course of business or otherwise unusual.

Audit conclusion

Our work has provided the assurance we sought in each of these areas. We have not identified any matters to bring to your attention.

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.

We confirm no such reports have been prepared.

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 the SFC and their officeholders have used their resources in discharging their functions.

We confirm no such reports have been prepared.

Summary of misstatements

Summary of misstatements

Unadjusted misstatements

We identified no misstatements above our reporting threshold, or that we deem to be material by nature, as at the date of this report which were not adjusted.

Adjusted misstatements

We identified no misstatements above our reporting threshold, or that we deem to be material by nature, as at the date of this report

Disclosure misstatements

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

Performance report:

- 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 include all of the disclosures required by the FReM.
- Correction of the employer's pension contribution rate which was incorrectly disclosed.

Related parties transactions:

- Additional disclosures of the interests of Board members to bring in line with the Register of Interests published on SFC website.

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

Fraud considerations

Fraud considerations

We have a responsibility to plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error.

Your responsibilities

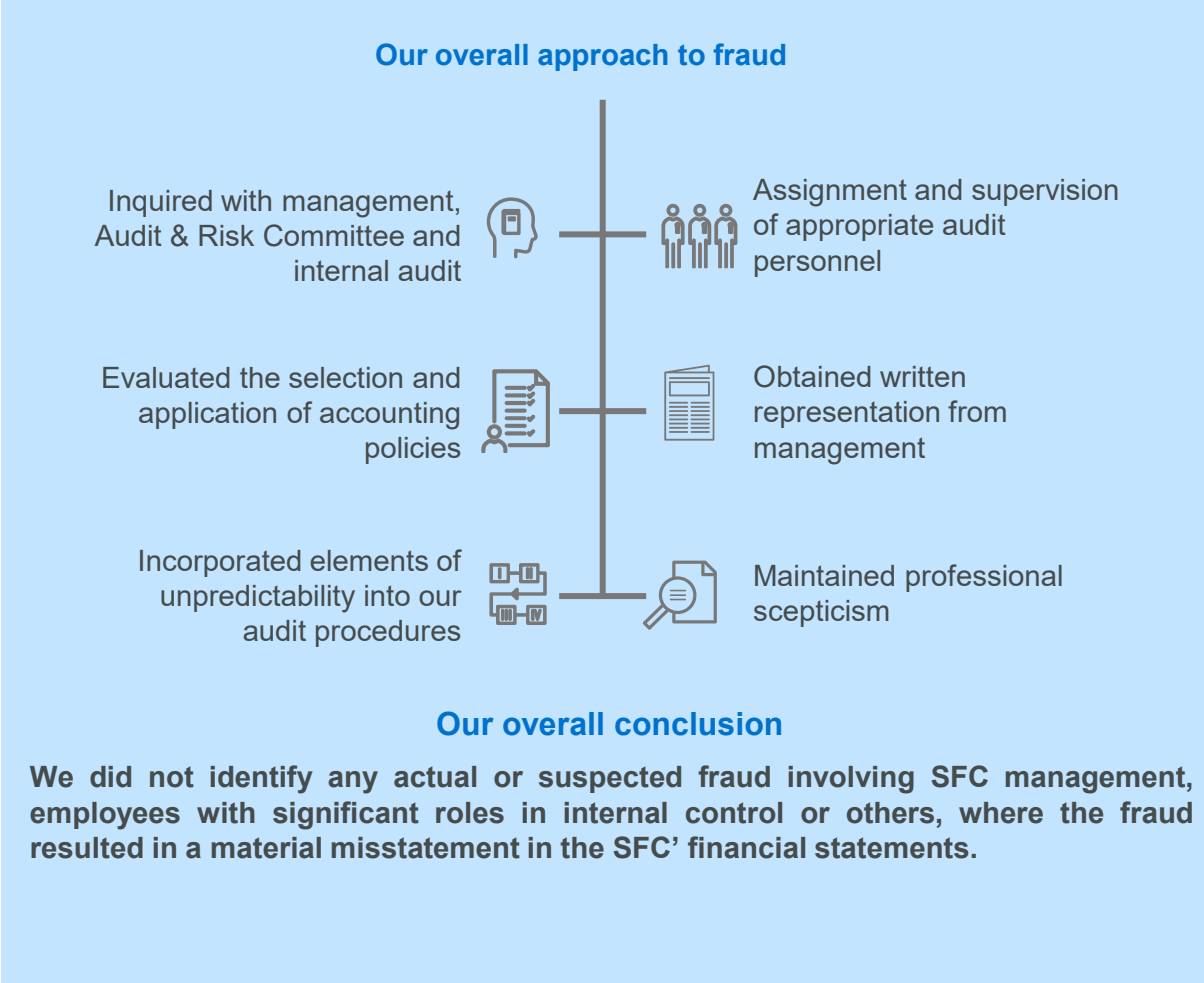
Management has primary responsibility for the prevention and detection of fraud. It is important that management, with your oversight, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which is reinforced by your active oversight.

Our responsibilities

We have a responsibility for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in a misstatement is intentional or unintentional. Two types of intentional misstatements are relevant to us – misstatements resulting from fraudulent financial reporting, and misstatements resulting from the misappropriation of assets.

ISA presumed fraud risks

As set out in the ‘*Audit approach and risk summary*’ section, the risk of fraud in management override of controls was identified as a significant risk.



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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 2024/25 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	Possible significant risks?	Significant risks identified?	Other recommendations made?
Financial management	25	No	No	No
Financial sustainability	28	No	No	Yes – see commentary on page 32
Vision, leadership and governance	33	No	No	Yes – see commentary on page 37
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

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Financial management culture	<p>SFC’s main financial objective is to ensure its financial outturn for the year is within the budget allocated by Scottish Ministers. SFC reported an outturn of £1,990 million against its overall budget allocation for 2024/25 with an underspend of £1.4 million. This reflects effective financial management and adherence to budgetary limits, while also demonstrating SFC’s ability to respond to sectoral needs through in-year adjustments.</p> <p>SFC’s budget setting and monitoring processes operated effectively and in accordance with agreed protocols during the year. Senior management and the Board were provided with regular, timely and accurate financial information, enabling informed decision-making.</p> <p>Monthly financial management reports were reviewed by the Executive Team, and monthly budget updates were communicated to the Scottish Government. This reflects good practice in financial oversight and transparency.</p> <p>SFC manages its budget through an annual re-profiling exercise to allocate funds among the colleges, universities, and running costs budget.</p> <p>SFC has adequate operational capacity to manage its financial responsibilities, both for its own operations and in respect of universities and colleges, delivered through its team of suitably qualified and experienced finance team.</p> <p>A clear and defined scheme of delegation is in place, ensuring compliance with relevant regulations and legislation. This scheme was updated in January 2025, to ensure it remained fit for purpose and in line with SFC’s commitment to continuous improvement.</p>	SFC has appropriate arrangements in place for financial management, including regular budget monitoring and reporting.	No significant issues identified.
Accountability	<p>The SFC Board retains overall responsibility for ensuring the robustness of financial reporting in line with its responsibility to maintain strategic oversight as well as to support the commitment to transparency and accountability.</p> <p>The Finance Committee plays a key role in the overall accountability framework. The Committee meets as often as necessary to fulfil its responsibilities, with a minimum of three meeting held annually to scrutinise the financial performance of the organisation. This provides an opportunity for challenge of year-to-date spending by Executives and Non-Executives. Our review of Committee minutes confirms this scrutiny is regular and that members are actively engaged in financial oversight.</p>	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 (continued)

Area assessed	Our findings	Our judgements	Risks identified
Accountability (continued)	<p>The Executive team and Scottish Government receive regular and accurate financial information on SFC's financial position. This includes monthly budget monitoring information and a detailed risks and pressures return. This ensures effective oversight and supports timely decision-making.</p> <p>At the presentation of the Annual Report and Accounts (ARA) to the Committee in May 2025, a balanced budget was reported, with the final outturn being £1.4 million below the budget limit. This demonstrates prudent financial management and the ability to respond to financial pressures while considering future year implications.</p>		
Arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption	<p>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.</p> <p>There is evidence of an on-going review of all policies from our attendance at audit and risk committee. There is robust challenge from the Committee in respect of changes to policies.</p> <p>Corporate governance policies, including fraud and whistleblowing, have been reviewed and updated and approved by Board in the December 2024 meeting.</p> <p>Instances of actual or attempted fraud are investigated. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. We reviewed SFC's NFI arrangements and concluded that it is active in investigating matches and reporting outcomes. Reports are presented to the Audit and Risk Committee to update members on progress with the NFI exercise.</p>	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

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Financial planning	<p>SFC has undertaken medium- to long-term financial modelling to support the identification and mitigation of potential funding risks for the sector. The model includes a series of assumptions about cost pressures such as pay awards, price inflation, and technological developments to generate financial forecasts through to FY2028/29. The model allows for scenario planning and sensitivity analysis so that SFC can consider a broad range of scenarios for the sector in the medium to long term.</p> <p>The December 2024 scenario planning paper presents three financial outlooks—optimistic, realistic, and pessimistic—covering the five-year period to 2028/29. This demonstrates a proactive approach to identifying and evaluating the potential impact of risks to future income and funding requirements.</p> <p>The Financial Health reports for education bodies identify key risks to institutional sustainability and assess their implications for SFC’s future funding strategy, with appropriate mitigations outlined. Institutional financial support measures and Key Performance Indicators have been developed to help support institutional financial sustainability. These include financial health indicators for education bodies assessed by the Governance, Infrastructure and Sustainability Team. These assessments inform internal briefings, Finance Committee papers, and SFC publications. SFC also monitors the financial health of higher and further education institutions through the ‘Financial Health – Strategic Plan Forecast Returns’ for academic years 2023/24 to 2025/26.</p> <p>SFC regularly publishes performance reviews on how institutions have delivered against their Outcome Agreements, providing insight into the impact of key funding decisions.</p> <p>In FY 2024/25, SFC updated its Framework for Assurance and Accountability, reinforcing confidence in its delivery of its statutory duties and alignment with Scottish Government expectations. The revised framework also enhances transparency regarding the utilisation of £2 billion in annual funding by colleges and universities.</p>	SFC has appropriate arrangements in place for financial planning.	<p>No significant issues identified.</p> <p>See page 32 for follow up of previous recommendations made to the SFC.</p>

Financial sustainability

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Financial planning (continued)	<p>In November 2024, the University of Dundee announced a significant deterioration in its financial position such that it expected to face a deficit of around £30m in the next financial year. The scale of the financial problem at the University was unexpected as this was not disclosed by the University and had not been identified through SFC’s monitoring of its financial sustainability. In response, SFC commissioned an independent investigation to determine the causes and contributing factors behind this sudden deterioration in the reported financial position.</p> <p>The independent investigation report (known as the Gillies Report) was published in June 2025. It concludes that, despite submitting all of the required financial and strategic returns required to SFC, the University was in breach of its obligations in under the Financial Memorandum in place with SFC because it did not disclose to SFC the key governance and financial risks, including a material drop in international income and failure to allocate the resultant savings needed appropriately. Significantly, the University also did not disclose that it was in breach of it’s banking covenants to SFC. The Gillies report stresses that the University’s Executive Team and Board were also unaware of the full extent of the financial issues.</p> <p>SFC’s engagement with the University had been increased from “Watching Brief” to “Intensive”. As such, SFC is now closely involved in monitoring the University’s financial recovery plan and the changes to its governance arrangements, including setting up a project team to work directly with the University of Dundee and placing observers on the University Court and key committees (Audit and Risk, Finance and Policy).</p> <p>Informed by the findings of the Gillies Report, SFC has recognised a need to enhance its institutional scrutiny across the whole sector. As such, it is actively developing its approach to engage with all institutions intended to improve resilience across the sector in light of the increasing financial risks and lessons learned from the University of Dundee.</p>		

Financial sustainability

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Financial planning (continued)	<p>Recognising the need to strengthen the assurance it gets over financial sustainability and governance, elements of the developing approach potentially include:</p> <ul style="list-style-type: none"> • Finance Business Partnering (FBP): including monthly checkpoints with higher-risk institutions to assess financial health, liquidity, and governance. • Improved Financial Assessment: enhanced scrutiny of financial returns, and forecasting accuracy, alongside a sector-wide review of treasury management practices. • Governance Oversight: strengthened review of governance effectiveness for institutions, clearer expectations for governing bodies, and increased engagement with internal and external auditors. • Data and Reporting Improvements: Automation of financial returns alongside refreshed reporting to the Executive Team, Board, and Scottish Government. • Specialist Support and Resourcing: arrangements to secure specialist financial advice and targeted project teams for work in high-risk institutions • Potential New Powers: Consideration of SFC's remit whether there is a case for additional statutory powers. <p>This is intended to enable a more robust and proactive approach that supports earlier intervention where required. It is being progressed ahead of formal discussions with the Scottish Government and other sector stakeholders which will be arranged in due course.</p>	SFC should look to finalise its approach to enhancing institutional scrutiny in light of the rising financial risk across the university and college sector. It should agree this approach with the Scottish Government and other sector stakeholders.	SFC will need to ensure it has the capacity, analytical and financial skills to be able to utilise the information it collects in effectively engaging with institutions

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 2024/25, 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 2024/25	Conclusions reached
1	<p>Medium term financial planning – Level 3</p> <p>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.</p>	<p>Management response Management accepts this recommendation.</p> <p>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.</p> <p>Implementation timescale 31 March 2024</p>	<p>Progress against the recommendation SFC has implemented a medium-to-long-term financial plan covering the period 2024/25 to 2028/29. Sensitivity analysis has been performed with 3 possible scenarios: Optimistic, realistic, pessimistic. Various assumptions and forecasts lie behind each of these.</p> <p>Additionally, SFC monitors the financial health of higher and further education institutions through the Financial Health – Strategic Plan Forecast Returns, covering academic years 2023/24 to 2025/26. These reports include key risks on the education bodies and the potential impact on SFC and its future funding requirements, with mitigations put in place.</p> <p>Following the Gillies Report into the University of Dundee, SFC is actively developing an enhanced approach to institutional scrutiny. This work is being progressed ahead of formal discussions with the Scottish Government, SFC’s Finance Committee and Board, and sector stakeholders.</p>	<p>Conclusions Ongoing.</p> <p>SFC should look to finalise its enhanced approach to institutional scrutiny in light of the rising financial risk across the university and college sector. It should agree this approach with the Scottish Government and other sector stakeholders. In doing so, SFC will need to ensure it has the capacity, analytical and financial skills to be able to utilise the information it collects in effectively engaging with institutions</p>

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

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Clarity of plans to implement the vision	<p>Consistent with prior years, the Strategic Plan for 2022-27 laid out 4 strategic objectives:</p> <ol style="list-style-type: none">1. Enabling people to learn and flourish2. Generating new ideas and diffusing knowledge3. Building a responsive, coherent, sustainable system4. making SFC an excellent organisation <p>Each of these 4 strategic objectives have 5 underpinning priorities in place to achieve the goals by 2027.</p> <p>The Strategic Plan is complemented by a more detailed Delivery Plan that describes the activities SFC will undertake to achieve the ambition, objectives and priorities set out in our Strategic Plan.</p> <p>This document covers the 4 strategic objectives, laying out actions for each of these with timelines set and milestones for monitoring progress. This ensures focus towards the strategy and vision set out from 2022-27.</p>	SFC's strategic plan sets out a clear vision and strategy for the organisation.	No significant issues identified.
Strategy and priorities	<p>As mentioned above, SFC's Delivery Plan provides a high-level overview of the activity that helps SFC work to deliver its strategic objectives.</p> <p>The Delivery Plan for 2024/25 was presented and agreed by the Board in May 2024. This demonstrates the annual review of the Delivery Plan to ensure it remains up to date and relevant for each year. Each strategic goal is linked to the objectives that support delivery over the timeframe and responsibility has been allocated to relevant people to ensure accountability is clear and can be maintained. Updates on performance against the delivery plan are shared with the Board on a quarterly basis.</p>	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	<p>SFC operates under a comprehensive governance framework, including legislation, formal policies, and structured Board procedures. The Board and its committees meet regularly, with active participation and consensus-based decision-making.</p> <p>An external review of Board effectiveness was carried out in the year with the feedback presented in May 2025. The review was generally positive about the arrangements in place but identified some areas for improvement. Notably, the review identified the Board’s strategic focus has been limited, with insufficient attention to financial sustainability and performance outcomes, and a lack of clear KPIs. The review also commented on the degree of face to face engagement. There were 34 recommendations arising from the review and in line with its commitment to ensuring the effectiveness of the Board, SFC has developed an action plan to address them. At the time of drafting this report, 15 actions have been completed, and the remainder are scheduled for completion by year end 2025/26.</p> <p>Internal Audit issued a “moderate” assurance report on SFC’s governance for 2024/25, noting effective progress on previous recommendations. Additionally, SFC has significantly enhanced its cyber and data protection capabilities, with Internal Audit confirming the organisation now has the skills and resources to assess IT and cyber related risks.</p> <p>Cyber risks were reported as ‘cautious’ throughout the year within the Risk register. In March 2025, the Board was presented with a revised risk framework for approval which revised the risk appetite descriptors. Within that framework, it was proposed that the cyber risk remained, but the appetite was changed to “minimal” with a programme of work continuing to be performed on mitigating cyber threats.</p> <p>The internal audit function of SFC provide insights into several key processes each year. During 2024/25, Internal Audit conducted reviews across six key areas. The reports provided limited assurance in some areas, indicating weaknesses which could lead to governance, risk management and controls being ineffective. Management have responded and action has been identified to address the findings and to strengthen internal controls.</p>	<p>The Board has a good understanding of its effectiveness and areas for improvement. An action plan is in place to address areas for improvement.</p> <p>The remaining actions should be implemented in a timely manner with Prioritisation of strategic risks and high-level matters being focused on at the Board level.</p> <p>There is scope to strengthen the internal control framework</p>	<p>There is a risk that the Board’s limited strategic focus and lack of clear KPIs may hinder its ability to oversee financial sustainability and drive long-term performance improvements.</p> <p>Whilst an action plan has been presented, 19 of the 34 actions remain to be implemented. The Board should prioritise the implementation of its agreed action plan, to strengthen strategic oversight.</p> <p>See page 37 and 39 for follow up of previous recommendations made to the SFC.</p>

Vision, leadership and governance (continued)

Our overall assessment (continued)

Area assessed	Our findings	Our judgements	Risks identified
Governance arrangements (continued)	<p>A review of internal audit reports and related evidence indicates limited assurance across in three of the six tested areas, highlighting weaknesses in risk management and internal controls.</p> <p>While management has acknowledged these issues and initiated corrective actions, the current state reflects a need for continued oversight and improvement.</p> <p>An action plan is in place with internal controls being actively monitored and enhanced in response to the internal audit findings. Whilst progress has been made with 18 actions completed there remains 4 overdue actions from both 23/24 and 24/25 internal audits, with another 7 on track yet to be completed.</p>	This indicates a weakness in control environment and could lead to possible misstatements through error or fraud.	
Financial and performance information	<p>SFC has introduced an updated Delivery Plan for 2024-25, complementing its 2022-27 Strategic Plan. The Delivery Plan includes clear strategic objectives, broken down into priorities and actions, with defined timeframes and lead directors - marking an improvement in accountability.</p> <p>In March 2025, SFC proposed a new KPI framework to address the previous lack of measurable indicators, including 8 outcome KPIs, 4 input KPIs, and 3 internally focussed KPIs. The Board agreed on the KPIs to monitor, and a results dashboard has since been developed in collaboration with digital analytics colleagues. This dashboard is scheduled for presentation to the Executive Team in July and to the Board for approval in September 2025.</p>	<p>SFC continues to consider and develop its monitoring of performance by introducing measurable indicators that will help to monitor several priorities to meet strategic objectives.</p> <p>Whilst progress has been made and KPIs have been agreed by Board in March 2025, these are yet to be implemented, and further progress is to be reported in future meetings in July and September 2025.</p>	<p>Continuance of prior year recommendation around lack of measurable KPIs which lead to a weakness in performance reporting and assessing progress made towards achieving strategic objectives.</p> <p>See page 40 for follow up of previous recommendations made to the SFC.</p>

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 2024/25, we followed up the progress made by the SFC against the recommendations made, and determined whether the risks remained during the year.

	Vision, leadership and governance finding as previously reported	Management response and implementation timeframe	Work undertaken and judgements made in 2024/25	Conclusions reached
1	<p>Governance arrangements – Level 2</p> <p>Given that the work is ongoing on updating governance framework documents, implementing Board evaluation and engagement plan, and completing external Board effectiveness review, SFC should continue work to improve their governance arrangements.</p>	<p>Management response 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.</p> <p>Responsible officer Louisa Baker, Deputy Director Governance & Planning</p> <p>Implementation timescale 31 March 2024</p>	<p>Progress against the recommendation An external review of Board effectiveness was undertaken in 2024-25 as planned. Whilst generally positive, the review found the Board’s strategic focus is lacking, with emphasis on operational matters and insufficient attention to financial sustainability, performance outcomes, and broader sector challenges. While the current strategy provides a framework, the absence of clear KPIs and limited engagement in shaping future strategy hinder the Board’s ability to effectively measure progress and drive reform.</p> <p>An action plan has been developed to respond to the findings of the external review and was presented to Board in June 2025. Of the 34 recommendations made by the review team, 15 have been completed with the remainder either ongoing or will be completed by March 2026.</p>	<p>Conclusions</p> <p>SFC has addressed the recommendation to commission an external review of Board effectiveness. SFC should now ensure it delivers the implements the actions arising from the review in order to strengthen its strategic governance.</p>

Vision, leadership and governance (continued)

Follow up of previously-reported recommendations (continued)

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 2024/25, we followed up the progress made by the SFC against the recommendations made, and determined whether the risks remained during the year.

	Vision, leadership and governance finding as previously reported	Management response and implementation timeframe	Work undertaken and judgements made in 2024/25	Conclusions reached
	Governance arrangements – Level 2 (continued)		<p>During 2024/25, Internal Audit carried out reviews in seven areas. Three of these reports provided only limited assurance over some processes. This indicates some controls in place are either not designed or implemented as expected. As a result, the Head of Internal Audit Opinion for the year provided an overall "moderate level" of assurance over the governance framework</p>	<p>Management should ensure action is taken to address recommendations made by Internal Audit.</p>

Vision, leadership and governance (continued)

Follow up of previously-reported recommendations (continued)

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 2024/25, we followed up the progress made by the SFC against the recommendations made, and determined whether the risks remained during the year.

	Vision, leadership and governance finding as previously reported	Management response and implementation timeframe	Work undertaken and judgements made in 2024/25	Conclusions reached
2	<p>Governance arrangements – Cyber Security – Level 2</p> <p>SFC should continue work to review and improve its governance of cyber security.</p>	<p>Management response Management accepts this recommendation. We are delivering a programme of work to enhance our cyber governance and IT resilience.</p> <p>Responsible officer Steve McDonald, Chief Information Officer</p> <p>Implementation timescale 31 March 2024</p>	<p>Progress against the recommendation An internal audit report for 2024/25 on IT skills and capabilities recognises that, by increasing IT resources and skills, SFC has significantly matured its cyber and data protection capabilities over the last three years. Successful recruitment into the Azure Cloud engineering post and mandatory annual technology certifications mean SFC now has the specialist skills and knowledge needed to make an informed assessment of its IT related risk exposure.</p> <p>Cyber risks appetite were reported as ‘cautious’ throughout the year within the Risk Register. In March 2025, the Board was presented with a revised risk framework for approval which revised the risk appetite descriptors. Within that framework, it was proposed that the cyber risk remained, but the appetite was changed to “minimal” with a programme of work continuing to be performed on mitigating cyber threats.</p>	<p>Conclusions No significant risks identified.</p>

Vision, leadership and governance (continued)

Follow up of previously-reported recommendations (continued)

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 2024/25, we followed up the progress made by the SFC against the recommendations made, and determined whether the risks remained during the year.

	Vision, leadership and governance finding as previously reported	Management response and implementation timeframe	Work undertaken and judgements made in 2024/25	Conclusions reached
3	<p>Financial and performance information - Performance measures</p> <p>SFC should work to further improve content of its performance report and ensure it sets clear performance targets and measures in its new strategic plan.</p>	<p>Management response Management accepts this recommendation. We are recruiting planning resource to take this forward.</p> <p>Responsible officer Louisa Baker, Deputy Director Governance & Planning</p> <p>Implementation timescale 31 March 2024</p>	<p>Progress against the recommendation The updated Delivery Plan for 2024-25 has been published to support the Strategic Plan for 2022-27. The Delivery Plan contains reference to strategic objectives broken down into priorities with several actions each. Progress updates have been provided for the period December 2024 and March 2025. These include a delivery timeframe and lead director for each objective. This is an improvement from prior years.</p> <p>In addition, SFC has developed a suite of KPIs to report to the Board. These were presented in March 2025 for the 2024/25 financial year. This addresses the lack of KPIs sitting alongside the strategic report 2022-27. It provides a small number of measurable KPIs spanning the 4 strategic objectives, eight are impact (outcome) indicators and four are inform (input) indicators considered to be forward looking. A further three indicators are internal and are focussed on internal monitoring and governance. The Board has agreed on the KPIs to be monitored going forward.</p> <p>While the KPIs were under development and have yet to be formally released, the Governance Team, in collaboration with the Digital Analytics Team, has developed a results dashboard. This dashboard was initially presented to the Executive Team in July 2025 and will be taken to the Board for discussion in September 2025.</p>	<p>Conclusions Whilst progress has been made and the KPIs were agreed by Board in March 2025, further progress is needed to strengthen Board reporting.</p> <p>We will follow-up progress in 2025/26 to determine if the KPIs suite is fully implemented and is being monitored effectively.</p>

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

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Resources deployed to improve strategic outcomes	<p>SFC has demonstrated a link between the funding received from Scottish Government, through the delivery of loans and funding to institutions, to achieve outcomes to end users and students at the point of delivery. The money spent by the SFC can be traced and agreed to developments in the education sector that affects change in accordance with the agreements set out between Scottish Government and SFC, and then between SFC and the education bodies.</p> <p>SFC has created new financial plans aiming to map out expenditure and outputs in the coming years. This is intended to provide greater clarity and risk mitigation against potential funding gaps. Where there are requests for additional funding and spend, a strategic proposal must be completed as a business case to demonstrate the outcomes that would be delivered to determine the cost-benefit. This provides evidence of the link between additional funding and outcomes.</p>	SFC has arrangements in place to demonstrate improvement in linking the financial plans to strategic outcomes.	No significant issues identified.
Needs of service users being met	<p>SFC is responsible supporting the sustainability of the further and higher education sectors in Scotland. It works with universities, colleges and other skills providers to ensure learners have access to the high-quality teaching and learning, and that research and innovation can advance across the sector.</p> <p>During 2024/25, SFC has implemented a revised Outcomes Framework (OF) and Assurance Model (AM) for the sector to update the approach it takes to assurance and accountability of the way individual institutions deliver what is expected from the funding they receive. The revised approach sees SFC set out its expectations and focus on the outcomes rather than the activities undertaken by the individual institutions. The new framework will see better use of data. However, SFC recognises the need to strengthen engagement where individual institutions through meetings and intervention activities that are bespoke to the specific circumstances.</p> <p>SFC has also developed a new Tertiary Quality Enhancement Framework which has been rolled out to two institutions during 2024.25. The framework is supported by SFC's guidance on quality that will apply to both colleges and universities for a seven-year period.</p> <p>These trends reflect are outwith the power of SFC to influence and funding is currently being met to allow for education bodies to meet service user demands. These downward trends are being monitored and feeding into future budgeting/ forecasting in SFC.</p>	SFC has arrangements in place to monitor how the needs of service users are being met	No significant issues identified.

Use of resources to improve outcomes (continued)

Our overall assessment (continued)

Area assessed	Our findings	Our judgements	Risks identified
	SFC has identified some key metrics that it tracks over time to ensure the right outcomes are being delivered. SFC has noted that the proportion of students coming from the 20% most deprived areas of Scotland as increased from 16.3% in 2022/23 to 16.7% for the 2023/24 year. Similarly, the proportion of students with lived experience in the care sector has increased. In addition, SFC has seen overall student satisfaction increase from 77.1% in 2023 to 80.7% in the 2025 survey.		
Arrangements to deliver continuous improvements in priority services	<p>We have confirmed the Skills, Enhancement, Access & Learning Committee are monitoring how service provision can be enhanced. This includes, for example, work on how SFC can support rural and remote provision, including using digital innovation and working with remote bodies such as the University of Highlands and Islands, as well as a consideration of 'skill camps' to expand access.</p> <p>SFC's guidance on quality was updated with a new report published in July 2025 covering periods 2024/25 - 2030/31. This report informs stakeholders of the arrangements for quality assurance and enhancement of service provision delivered at funded institutions.</p> <p>We have confirmed that service users (students) are consulted in Student Satisfaction and Engagement Surveys as part of a national approach to monitoring student satisfaction and engagement, which provides a means to evaluate and enhance provision in Scotland. The surveys cover college, university, and postgraduate students. The most recent publication is the survey results from 2023/24 period where 9 out of 10 full-time students were satisfied with their college experience.</p>	SFC has appropriate arrangements in place to continue delivering continuous improvements in priority services.	No significant issues 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 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 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, proportionate to the size and type of the body, to assess whether 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-assessments measure SFC against the Best Value characteristics identified by the Scottish Government as being those an organisation should be able to demonstrate.

SFC undertakes a self-assessment every three years and presented the outcome of that assessment to the September 2024 Board meeting which set out that Best Value arrangements would be monitored through annual reporting to the Board. As such, monitoring by the Accountable Officer ensures suitable arrangements are in place to secure Best Value.

This self-assessment covered 69 characteristics across the seven Best Value themes. It identified 60 characteristics as being well developed and a further eight under development. One characteristic was assessed as yet to be developed. This relates to the lack of quantitative measures and KPIs for sustainable development. We have commented elsewhere in this report on SFC's work around the development of the suite of KPIs which are under development. We are satisfied SFC's approach to the self assessment is adequate as each of the characteristics assessed is supported by appropriate evidence to support the judgement. All characteristics are linked to improvement actions with assigned process owners, demonstrating accountability. We are satisfied that Best Value arrangements are being appropriately considered and reported to those charged with governance.

SFC should continue monitoring the implementation of those characteristics under development and ensure they are actioned in a timely manner.

Overall, the approach to reviewing the compliance with Best Value principles reflects SFC's commitment to continuous improvement. Appropriate actions are being taken by the Accountable Officer to ensure SFC can demonstrate compliance with Best Value arrangements.



Appendices

- A: Internal control conclusions
- B: Draft management representation letter
- C: Draft audit report
- D: Confirmation of our independence
- E: Other communications
- F: Wider scope ratings

Appendix A: Internal control conclusions

Other 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 control that is necessary 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 the Scottish Funding Council'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 the Scottish Funding Council's internal controls or to identify any significant deficiencies in their design or operation.

The matters reported in Appendix A 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 Appendix A should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

We have not identified any new internal control observations as at the date of this report. In Appendix A, we provide an update on internal control points raised in previous years.

Appendix A: 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.

Review of fixed asset register and useful life

Description of deficiency

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.

2024/25 update

The review of the asset register has been completed by management and appropriate adjustments made. This matter is now closed.

Appendix A: Internal control conclusions (continued)

Follow up on previous internal control points

We set out below an update on internal control points raised in previous years.

Related parties' transactions – Register of Interest

Description of deficiency

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.

2024/25 update

SFC introduced a new conflict of interest policy in September 2024. This policy made changes to the ROI forms to ensure compliance with the code of conduct document. Our audit testing confirmed all board members in post in September 2024 had completed the new form. All of the forms were signed. This matter is now closed.

IT general controls

Description of deficiency

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.

2024/25 update

A Change Management Policy was implemented in September 2024. This matter is now closed.

Appendix B: Draft management representation letter

Karen Murray
Forvis Mazars LLP
One St Peter’s Square
Manchester
M2 3DE

September 2025

Dear Karen,

Scottish Funding Council - Audit for the Year Ended 31 March 2025

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 2025 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 2024/25 Government Financial Reporting Manual (the 2024/25 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 2024/25 Government Financial Reporting Manual (the 2024/25 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;

Appendix B: Draft management representation letter (continued)

- 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.

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

Appendix B: Draft management representation letter (continued)

interpreted and adapted by the 2024/25 Government Financial Reporting Manual (the 2024/25 FReM).

Laws and regulations

I confirm that I have disclosed to you all those events of which I am 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 2024/25 Government Financial Reporting Manual (the 2024/25 FReM).

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

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.

Appendix B: Draft management representation letter (continued)

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 2024/25 Government Financial Reporting Manual (the 2024/25 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.

Appendix B: Draft management representation letter (continued)

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.

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 2025 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 2024/25 Government Financial Reporting Manual (the 2024/25 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 2025 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 2024/25 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.

Appendix C: Draft audit report (continued)

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.

Appendix C: Draft audit report (continued)

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.

Appendix C: Draft audit report (continued)

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.

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

Appendix C: Draft audit report (continued)

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
XX September 2025

Appendix D: Confirmation of our independence

We communicate any matters which we believe may have a bearing on the 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 D: 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 28 February 2025. Having substantially completed our work for the 2024/25 financial year, we can confirm that our fees are as follows:

Area of work	2024/25 fees	2023/24 fees
Auditor remuneration	£103,550	£99,380
Pooled costs	(£1,000)	£1,060
Sectoral cap adjustment	£6,480	£6,520
Total fees	£109,030	£106,960

Fees for other work

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



Appendix E: Other communications

Other communication	Response
 Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain 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.</p>
 External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
 Related parties	<p>We did not identify any significant matters relating to the audit of related parties. We have obtained written representations from management confirming that:</p> <ul style="list-style-type: none"> 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 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	<p>We have not identified any evidence to cause us to disagree with the Accountable Officer's assessment that SFC will be a going concern and we have not identified any evidence to cause us to consider the use of the going concern assumption in preparation of the financial statements is not appropriate.</p> <p>We have obtained written representations from management, confirming 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.</p>

Appendix E: Other communications (continued)

Other communication	Response
<div data-bbox="96 378 165 449"></div> <div data-bbox="196 391 463 421">Subsequent events</div>	<p>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.</p> <p>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.</p>
<div data-bbox="84 742 173 828"></div> <div data-bbox="196 762 402 823">Matters related to fraud</div>	<p>Our audit was designed to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. Please refer to the section titled ‘Fraud considerations’ for our fraud considerations and conclusion.</p> <p>We have obtained written representations from management and, where appropriate, the Audit and Risk Committee, confirming:</p> <ol style="list-style-type: none"> they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; they have disclosed to the auditor the results of management’s assessment of the risk the financial statements may be materially misstated as a result of fraud; they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ol style="list-style-type: none"> management; employees who have significant roles in internal control; or others where the fraud could have a material effect on the financial statements; and 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 E: Other communications (continued)

Other communication	Response
<div>  <div> System of Quality Management </div> </div>	<p>To address the requirements of ISQM (UK) 1, our firm’s System of Quality Management team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on our firm’s System of Quality Management, including:</p> <ul style="list-style-type: none"> • ensuring there is an appropriate assignment of responsibilities under ISQM (UK) 1 and across Leadership • establishing and reviewing quality objectives each year, ensuring ISQM (UK) 1 objectives align with our firm’s strategies and priorities • identifying, reviewing, and updating quality risks each quarter, taking into consideration a number of input sources (such as FRC / ICAEW review findings, internal monitoring findings, findings from our firm’s root cause analysis and remediation functions, etc.) • identifying, designing, and implementing responses as part of the process to strengthen our firm’s internal control environment and overall quality • evaluating responses and remediating control gaps or deficiencies <p>We perform an evaluation of our system of quality management on an annual basis. Our latest evaluation was performed as of 31 August 2024. Details of that assessment and our conclusion are set out in our 2023/2024 Transparency Report, which is available on our website here.</p>
<div>  <div> National Fraud Initiative </div> </div>	<p>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.</p> <p>The SFC submitted creditors and payroll data for the 2024/25 exercise and received matches for investigation in the year.</p> <p>We have monitored SFC’s participation and progress during the 2024/25 audit. During the 2024/25 NFI exercise, they received a total of 6 reports containing 42 matches. Using a risk-based approach, SFC processed and cleared 98% of the matches across all categories.</p>

Appendix F: 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 risks. 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.

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