



Annual Audit Plan

Scottish Funding Council – Year ending 31 March 2026

February 2026

Audit and Risk Committee Members
Scottish Funding Council
APEX 2
97 Haymarket Terrace
Edinburgh
EH12 5HD

27 February 2026

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

Dear Audit and Risk Committee Members,

Annual Audit Plan – Year ending 31 March 2026

We are pleased to present our Annual Audit Plan for the Scottish Funding Council (SFC) for the year ending 31 March 2026. This report summarises our audit approach, including the significant audit risks and areas of key judgement we have identified, and provides details of our audit team. In addition, as it is a fundamental requirement that an auditor is, and is seen to be, independent of an audited entity, the section of the report titled '*Confirmation of our independence*' summarises our considerations and conclusions on our independence as auditors.

Two-way communication with you is key to a successful audit and is important in:

- Reaching a mutual understanding of the scope of the audit and our respective responsibilities;
- Sharing information to assist each of us to fulfil our respective responsibilities;
- Providing you with constructive observations arising during the audit process; and
- Ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance, and other risks facing the Scottish Funding Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, this report, which has been prepared following our initial planning discussions with management, facilitates a discussion with you on our audit approach. We welcome any questions, concerns, or input you may have on our approach or role as auditor.

Annual Audit Plan – Year ending 31 March 2026 (continued)

This report also contains appendices that outline our key communications with you during the audit, and forthcoming accounting issues and other issues that may be of interest to you.

Providing a high-quality service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations. If you have any concerns or comments about this report or our audit approach, please contact me.

This document will be presented at the Audit & Risk Committee meeting on 11 March 2026. If you would like to discuss any matters in more detail, please contact me on +44 (0)7721 234 043

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ("the Code") and for the sole benefit of the Audit and Risk Committee. 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.

Yours faithfully,

A handwritten signature in blue ink that reads "Karen Murray".

Karen Murray
Audit Partner
Forvis Mazars LLP

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Appendix A – Key communication points

Appendix B - Current year updates, forthcoming accounting and other issues

This document is to be regarded as confidential to the SFC. It has been prepared for the sole use of the 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.

Engagement and responsibilities summary

Engagement and responsibilities summary

We are appointed to perform the external audit of the Scottish Funding Council for the year to 31 March 2026. The scope of our engagement is set out in the Code of Audit Practice, issued by the Auditor General and the Accounts Commission available from the Audit Scotland website: [Code of audit practice | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk). Our responsibilities are principally derived from the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, as outlined below and overleaf.

Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with applicable law and UK adopted international accounting standards as interpreted and adapted by the 2025/26 Government Financial Reporting Manual.

Our audit does not relieve management or the Audit and Risk Committee, as Those Charged With Governance, of their responsibilities.

The Director of Finance is responsible for the assessment of the Scottish Funding Council's ability to continue as a going concern. As auditors, we are required to obtain sufficient, appropriate audit evidence regarding, and conclude on:

- a) whether a material uncertainty related to going concern exists, and
- b) the appropriateness of the Scottish Funding Council's use of the going concern basis of accounting in the preparation of the financial statements.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error, and non-compliance with law or regulations rests with both you and management. This includes establishing and maintaining internal controls over asset protection, compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud, we are required to inquire of you, key management personnel, and internal audit on their knowledge of instances of fraud, and their views on the risks of fraud and on internal controls that mitigate those risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. However, our audit should not be relied upon to identify all such misstatements.



Engagement and responsibilities summary (continued)



Internal control

Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We are responsible for obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scottish Funding Council's internal control.



Wider scope and Best Value

We are also responsible for reviewing and reporting on the wider scope arrangements that the Scottish Funding Council has in place and its arrangements to secure Best Value. We discuss our approach to wider scope and Best Value work further in the '*Wider scope and Best Value*' section of this report.



Wider reporting

We report to the National Audit Office on the consistency of the Scottish Funding Council's financial statements with its Whole of Government Accounts (WGA) submission. The level of auditor assurance required depends on monetary thresholds set by HM Treasury.

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Your audit engagement team

Your audit team



Karen Murray

Engagement Partner

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Engagement Manager

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Aaron Rowell

Team Leader

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We will utilise the external expert Deloitte on this engagement in the following area:

Review of the approach adopted by Deloitte in its calculation of Cash Equivalent Transfer Values (CETVs), pension entitlements and obtaining assurance over the operation of CETV calculator used by Capita in providing information on pension benefits for inclusion in Remuneration Reports. The NAO has commissioned Deloitte to support auditors to make this consideration.

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Audit scope, approach, and timeline

Audit scope, approach, and timeline

Audit scope

Our audit is designed to comply with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit methodology, and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations, or areas found to contain material errors in the past.

Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment, where we assess the inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in our risk assessment, we develop our audit strategy and design audit procedures to respond to the risks we have identified.

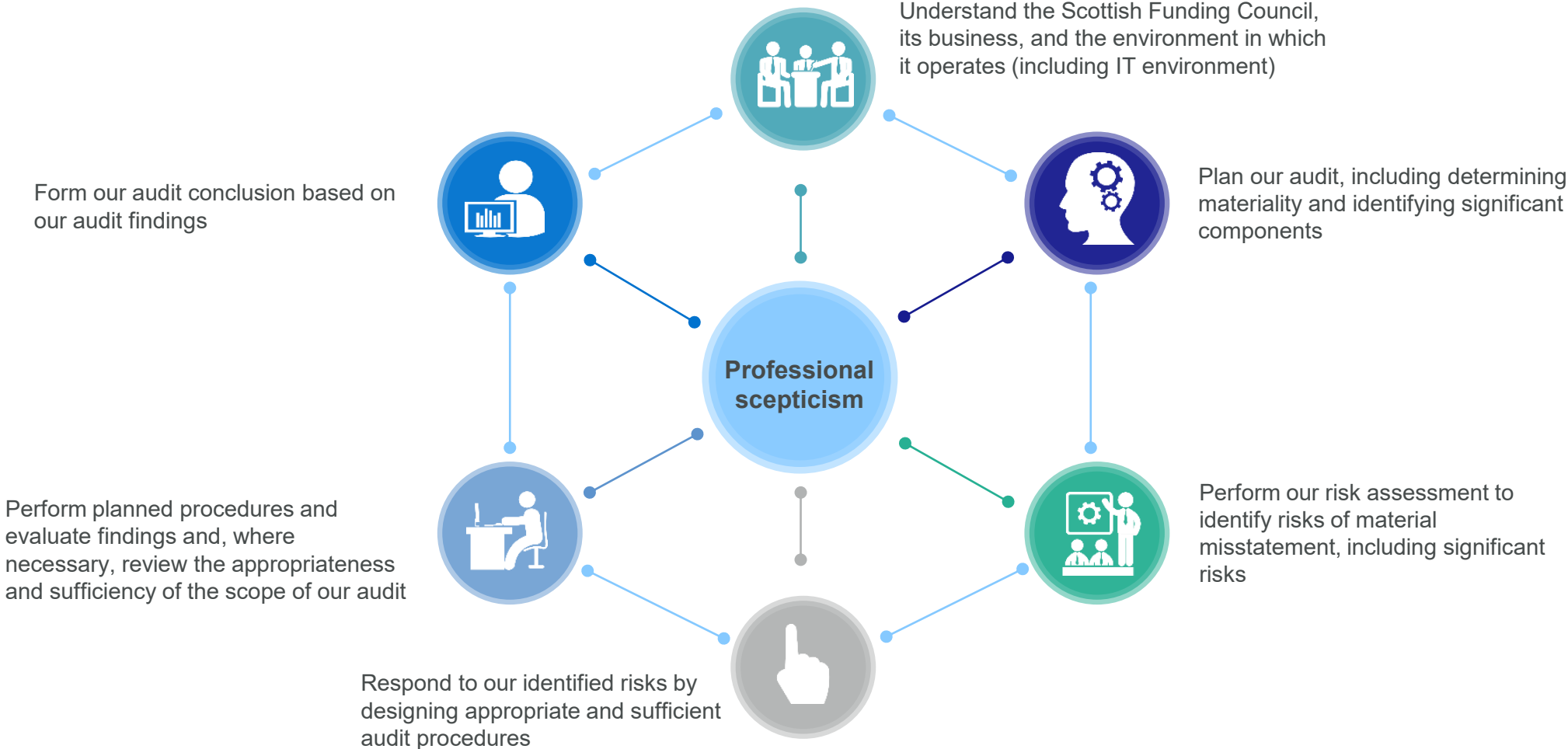
If we conclude appropriately designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit has been planned, and will be performed, to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in the *'Materiality and misstatements'* section of this report.

The diagram on the next page outlines the procedures we perform at the different stages of our audit. We have also provided, later in this report, a table setting out the procedures we perform for the significant financial statement areas.

Audit scope, approach, and timeline (continued)

Risk-based approach



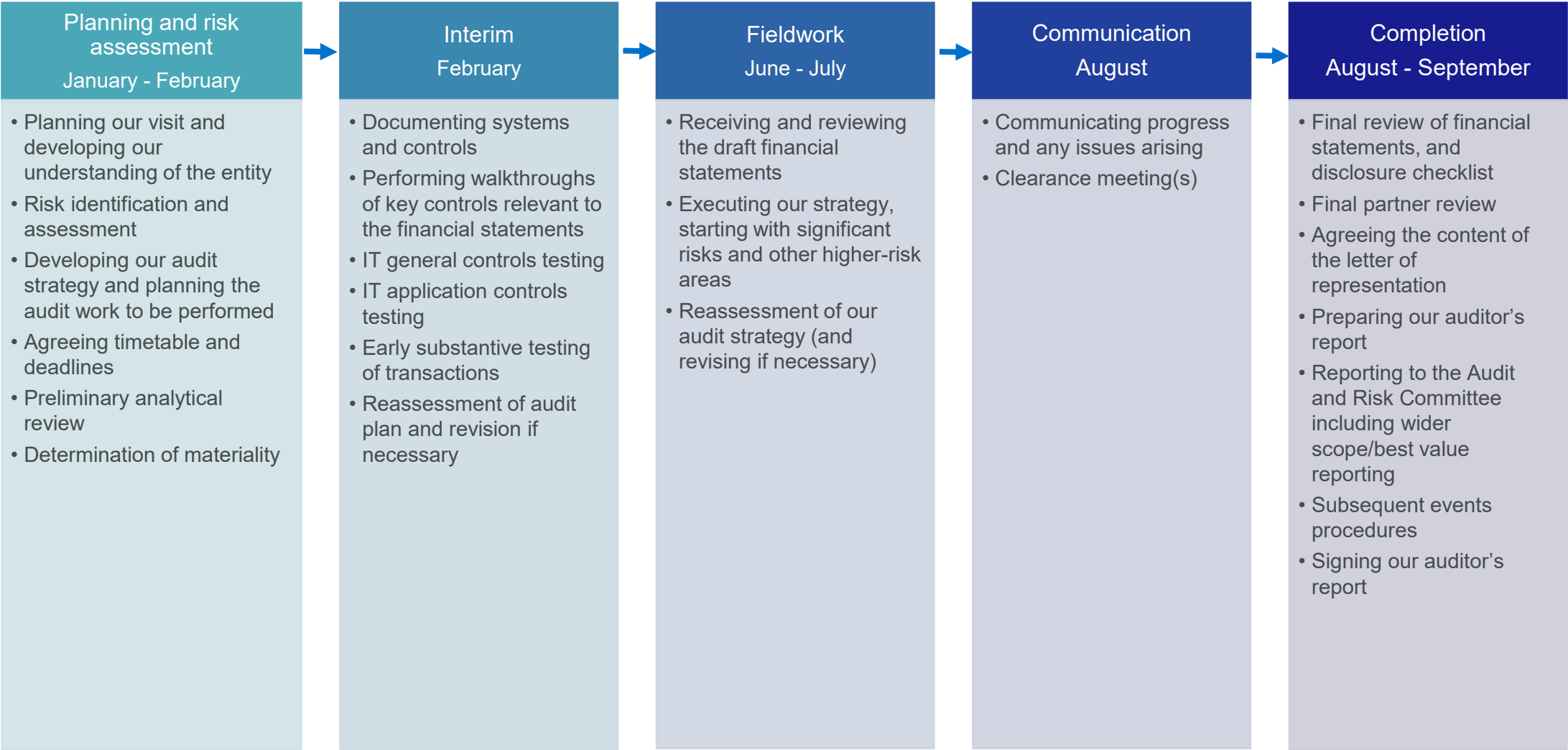
Audit scope, approach, and timeline (continued)

Managements and our experts

Management makes use of experts in specific areas when preparing the Scottish Funding Council’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

| Item of account | Management’s expert | Our expert |
|---|---------------------|--|
| Cash equivalent transfer values of pensions as disclosed in the Remuneration and Staff Report | Capita | Deloitte have been commissioned by the NAO to review the reports provided by Capita for our audit as the auditor’s expert. We are awaiting confirmation of the likely timing for receipt of this report. |

Audit scope, approach, and timeline (continued)



Audit scope, approach, and timeline (continued)

Audit approach for significant financial statement areas

Our audit approach on significant financial statement areas is set out below.

| Financial statement area | Significant risk | Key judgement area or enhanced risk | Testing of controls | Substantive procedures | Comments |
|---|------------------|-------------------------------------|---------------------|------------------------|----------|
| Grants paid to HEIs and other bodies | No | No | No | Yes | |
| Grants paid to colleges and other bodies | No | No | No | Yes | |
| Income (total) | No | No | No | Yes | |
| Loans | No | No | No | Yes | |
| Cash and cash equivalents | No | No | No | Yes | |
| Statement of changes in taxpayers' equity | No | No | No | Yes | |
| Statement of Cash Flows | No | No | No | Yes | |
| Related Parties | No | No | No | Yes | |
| Capital and non-capital commitments | No | No | No | Yes | |
| Performance Report | No | No | No | Yes | |
| Governance Statement | No | No | No | Yes | |
| Remuneration and Staff Report | No | No | No | Yes | |

Materiality and misstatements

Materiality and misstatements

Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

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

Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to the Audit and Risk Committee.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on a consideration of the common financial information needs of users as a group and not on specific individual users.

An assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities, and accounts;

- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented, and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events; and
- Will make reasonable economic decisions based on the information in the financial statements.

We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors.

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provides a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Materiality and misstatements (continued)

Materiality (continued)

For the Scottish Funding Council financial statements, we consider that total expenditure is the key focus of users of the financial statements. We have therefore determined our initial materiality levels using the total expenditure of the Scottish Funding Council as the benchmark.

We expect to set a materiality threshold of 2% of total expenditure.

As set out in the tables alongside, based on the currently available information which is the audited 24/25 financial statements, we anticipate overall materiality for the year ended 31 March 2026 to be in the region of £41m (£41m in the prior year), and performance materiality to be in the region of £29m (£29m in the prior year). We will review our assessment of materiality on receipt of the 2025/26 draft statements and will continue to monitor it throughout our audit to ensure it remains set at an appropriate level.

Scottish Funding Council's financial statements

| | 2025/26 £'000s | 2024/25 £'000s |
|-------------------------|---|---|
| Overall materiality | £41,000 | £41,000 |
| Performance materiality | £29,000 | £29,000 |
| Clearly trivial | £800 | £800 |
| Specific materiality | We assess the Remuneration and Staff Report as sensitive given users' interest in this specific area of the Annual Report. We propose to set materiality in this area at 1 band within the tables in the Remuneration and Staff Report i.e. an error that moved a disclosure by one band would be assessed as material. | We assess the Remuneration and Staff Report as sensitive given users' interest in this specific area of the Annual Report. We propose to set materiality in this area at 1 band within the tables in the Remuneration and Staff Report i.e. an error that moved a disclosure by one band would be assessed as material. |

Materiality and misstatements (continued)

Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to the Audit and Risk Committee and management that is consistent with a threshold where misstatements below that amount would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed clearly trivial threshold is £0.8m, based on 2% of overall materiality. If you have any queries about this, please raise these with Karen Murray.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to the Audit and Risk Committee as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Misstatements also cover qualitative misstatements and include quantitative and qualitative misstatements and omissions relating to the notes of the financial statements.

Reporting

In summary, we will categorise and report misstatements above the reporting threshold to the Audit and Risk Committee as follows:

- Adjusted misstatements;
- Unadjusted misstatements; and
- Disclosure misstatements (adjusted and unadjusted).

Significant risks and other key judgement areas

Significant risks and other key judgement areas

Definitions

Following the risk assessment approach set out in the 'Audit scope, approach, and timeline' section, we have identified the risks of material misstatement in the financial statements. These risks are categorised as significant, enhanced, or standard. The definitions of these risk ratings are set out below.

| Risk Level | Definition |
|-------------|---|
| Significant | A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. A fraud risk is always assessed as a significant risk (as required by auditing standards), including management override of controls and revenue recognition. |
| Enhanced | An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to: <ul style="list-style-type: none">• Key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and• Risks relating to other assertions and arising from significant events or transactions that occurred during the period. |
| Standard | A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a risk occurring. |

Significant risks and other key judgement areas (continued)

Audit risks and planned responses

In this section, we have set out the risks that we deem to be significant and enhanced, and our planned response. An audit is a dynamic process, and should we change our view of risk and/ or our approach to address those risks during our audit, we will report this to the Audit and Risk Committee.

Significant risks

| | Risk name | Fraud | Error | Judgement | Risk description | Planned response |
|---|---------------------------------|-------|-------|-----------|---|---|
| 1 | Management override of controls | Yes | No | Yes | <p>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.</p> <p>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.</p> | <p>In line with our methodology, we plan to address the management override of controls risk by:</p> <ul style="list-style-type: none"> • 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. |

Significant risks and other key judgement areas (continued)

Consideration of risks related to revenue and expenditure recognition

As set out in International Standard on Auditing (UK) 240: The auditor's responsibilities relating to fraud in an audit of financial statement, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

We consider the risk of fraud in revenue recognition to be low at SFC because 99% of income is grant-in-aid and other grants from the Scottish Government and can be agreed to funding letters or other third-party notifications. On this basis, we have rebutted this as a significant risk. This is consistent with previous years.

Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom highlights that, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may, in some cases, be greater than the risk relating to revenue recognition. However, in our view there is no incentive for SFC to manipulate expenditure because it is not subject to statutory limits and targets. Furthermore, SFC's expenditure is mainly grant payments to colleges and universities SFC can reprofile expenditure at year-end with the approval of the Scottish Government. SFC's remaining expenditure i.e. staff costs and payments to suppliers is immaterial. Therefore, we have not recognised an increased risk in relation to expenditure.

At this stage, we are not proposing to include specific work in our audit plan in these areas over and above our standard audit procedures.

Significant risks and other key judgement areas (continued)

Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance*, we would like to seek the Audit and Risk Committee's views/ knowledge of the following matters

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- Are you aware of any significant communications between the Scottish Funding Council and regulators?
- Are there any matters that you consider warrant particular attention during the course of our audit, and any areas where you would like additional procedures to be undertaken?

Internal audit function

Based on our assessment of the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors, the level of competence of the internal audit function, and whether the internal audit function applies a systematic and disciplined approach, including quality control, we do not expect to use the work of the internal audit function for the purpose of our audit.

Nonetheless, we will obtain a copy of the reports issued by internal audit relating to the financial period under audit determine whether any findings will have an impact on our risk assessment and planned audit procedures.

06

Wider scope and Best Value

Wider scope and Best Value

The framework for wider scope work

The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit. We are required to form a view on the adequacy of the Scottish Funding Council's arrangements in four areas:

1. **Financial management**
2. **Financial sustainability**
3. **Vision, leadership, and governance**
4. **Use of resources to improve outcomes**

Financial management

Financial management means having sound budgetary processes. Audited bodies require the ability to understand the financial environment and whether internal controls are operating effectively. Auditors consider whether the body has effective arrangements to secure sound financial management.

Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. Auditors consider the extent to which audited bodies have shown regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so that it can continue to deliver services.

Vision, leadership and governance

Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation. Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. They also consider the effectiveness of governance arrangements for delivery.

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. Auditors consider the clarity of the arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.

Wider scope and Best Value (continued)

Our approach

Our planned audit work against the four wider scope areas is risk based and proportionate. We need to gather sufficient evidence to support our commentary on the Scottish Funding Council's arrangements and to identify and report on any significant weaknesses.

We will carry out more detailed work where we identify significant risks. Where significant weaknesses are identified we will report these to the Scottish Funding Council and make recommendations for improvement. In addition to local risks, we consider the challenges affecting the public sector as a whole.

Best Value

Ministerial Guidance to Accountable Officers and the Scottish Public Finance Manual explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value including consideration of the seven Best Value characteristics. We will consider the arrangements put in place by the Accountable Officer to meet their Best Value obligations as part of the wider scope audit work.

We are required to report on the fairness and equality characteristic once during the audit appointment. We are planning to report on this characteristic in the 2025/26 Annual Audit Report.

Wider scope and Best Value (continued)

Wider scope risks

The Code of Audit Practice requires us to consider the significant audit risks in areas defined in the Code as the wider scope audit.

Our planning and risk assessment work for wider scope is not yet complete. However, on the basis of the work to date, we have not identified any wider scope audit risks. If we identify any wider scope audit risks as our work progresses, we will report the details to the Audit and Risk Committee.

Wider scope and Best Value (continued)

Our work to follow-up on previous recommendations

As part of our 2024/25 audit, we identified risks in the Scottish Funding Council's arrangements. The table below sets out the risks identified, our previous recommendations and the work we intend to carry out as part of our 2025/26 audit.

| Previously identified risks in arrangements | Relevant reporting criteria | Our 2024/25 recommendations | Planned procedures for 2025/26 |
|--|-----------------------------------|---|--|
| <p>Medium term financial planning- Level 3</p> <p>SFC should continue to develop its reporting on financial sustainability across the university and college sectors to support the preparation of longer-term financial planning and sustainability.</p> | Financial sustainability | 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 | Review SFC's progress in preparing longer term financial plans for the further and higher education sectors in the context of the Scottish Government's upcoming multi-year spending plans. |
| <p>Governance arrangements:- Level 2</p> <p>SFC needs to complete the delayed governance review to refresh its formal governance framework, and further clarify roles and responsibilities. SFC needs to complete the delayed annual Board evaluation and from this develop and implement a refreshed training and development plan for Board and Committee members. Board and committee members should have regular updates on Board development plan progress on implementation and delivery.</p> | Vision, leadership and governance | 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>Review SFC's progress in completing governance review and updating governance framework documents.</p> <p>Review SFC's progress in implementing Board evaluation and engagement plan as well as progress made on external Board effectiveness review.</p> <p>Review actions taken to regularly update Board and committee members on the progress made on Board development plan.</p> |

Wider scope and Best Value (continued)

Our work to follow-up on previous recommendations

| Previously identified risks in arrangements | Relevant reporting criteria | Our 2024/25 recommendations | Planned procedures for 2025/26 |
|--|--|--|--|
| <p>Financial and performance information - Performance measures</p> <p>SFC should work to further improve content of its performance reports and to ensure it sets clear performance targets and measures in its new strategic plan</p> | <p>Vision, leadership and governance</p> | <p>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> | <p>Review of SFC’s progress made to improve the content and presentation of its performance report. Follow-up implementation progress of KPIs suite.</p> |

07

Audit fees and other services

Audit fees and other services

Our fees (exclusive of VAT and disbursements) for the audit of the Scottish Funding Council's financial statements for the year ended 31 March 2026, are outlined below.

At this stage of the audit, we are not planning any divergence from the expected fees set by Audit Scotland, which is available on the Audit Scotland website: [Audit Scotland expected fees for 2025/26 audits](#).

| Area of work | 2025-26 Proposed Fee | 2024-25 Actual Fee |
|----------------------------|----------------------|--------------------|
| Auditor remuneration | £107,490 | £103,550 |
| Pooled costs | (£360) | (£1,000) |
| Contribution to PABV costs | £0 | £0 |
| Sectoral cap adjustment | £6,630 | £6,480 |
| Total fees | £113,760 | £109,030 |

We have not provided any non-audit services to the Scottish Funding Council during the year.

08

Confirmation of our independence

Confirmation of our independence

Requirements

We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Revised Ethical Standard.

Compliance

We are not aware of any relationship between Forvis Mazars and the Scottish Funding Council that, in our professional judgement, may reasonably be thought to impair our independence.

We are independent of the Scottish Funding Council and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.

Non-audit and Audit fees

We have confirmed that we have not provided any non-audit services to the Scottish Funding Council. Our audit fees are reported.

We are committed to independence and confirm that we comply with the FRC's Revised Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration.
- All new partners and staff are required to complete an independence confirmation and complete annual ethical training.
- Rotation policies covering audit engagement partners and other key members of the audit team.
- Use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate, Forvis Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with me in the first instance.

Confirmation of our independence

Prior to the provision of any non-audit services, I will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

Principal threats to our independence and the associated safeguards we have identified and/ or put in place are set out in Framework Agreement issued by Audit Scotland available from the Audit Scotland website: [Audit Scotland Framework Agreement \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk). Any emerging independence threats and associated identified safeguards will be communicated in our Annual Audit Report.

Any emerging independence threats and associated safeguards we identify or put in place will be communicated to you in our Annual Audit Report.

Appendices

A: Key communication points

B: Current year updates, forthcoming accounting and other issues

Appendix A: Key communication points

We value communication with you, as a two-way feedback process is at the heart of our client service commitment. ISA (UK) 260 Communication with Those Charged with Governance and ISA (UK) 265 Communicating Deficiencies In Internal Control To Those Charged With Governance And Management specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Annual Audit Plan in February/March 2026;
- Our Annual Audit Report in September 2026; and
- Our independent auditor's report in September 2026.

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Annual Audit Plan

Our responsibilities in relation to the audit of the financial statements;

- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and

- Fees for audit and other services.

Key communication points at the completion stage to be included in our Annual Audit Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix A: Key communication points

ISA (UK) 260 Communication with Those Charged with Governance, ISA (UK) 265 Communicating Deficiencies In Internal Control To Those Charged With Governance And Management and other ISAs (UK) specifically require us to communicate the following:

| Required communication | Where addressed |
|---|---|
| Our responsibilities in relation to the financial statement audit and those of management and Those Charged with Governance. | Annual Audit Plan |
| The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks. | Annual Audit Plan |
| With respect to misstatements: <ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant. | Annual Audit Report |
| With respect to fraud communications: <ul style="list-style-type: none"> • Inquiries with the Audit and Risk Committee to determine whether you have knowledge of any actual, suspected, or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud. | Annual Audit Report and discussion at the Audit and Risk Committee meetings; Audit planning and clearance meetings |
| Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures. | Annual Audit Report |

Appendix A: Key communication points (continued)

| Required communication | Where addressed |
|--|---------------------|
| <p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity. | Annual Audit Report |
| <p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Scottish Funding Council or the Audit and Risk Committee in the context of fulfilling their responsibilities. | Annual Audit Report |
| Significant deficiencies in internal controls identified during the audit. | Annual Audit Report |

Appendix A: Key communication points (continued)

| Required communication | Where addressed |
|--|--|
| <p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off)} and inquiry of the Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements that the Audit and Risk Committee may be aware of.</p> | <p>Annual Audit Report and the Audit and Risk Committee meetings</p> |
| <p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements. | <p>Annual Audit Report</p> |
| <p>Communication regarding our system of quality management, compliant with ISQM (UK) 1, developed to support the consistent performance of quality audit engagements. 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:</p> <ul style="list-style-type: none"> • Ensure there is an appropriate assignment of responsibilities under ISQM (UK) 1 and across Leadership • Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm’s strategies and priorities • Identify, review, and update quality risks each quarter, taking into consideration the 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.) • Identify, design, and implement responses as part of the process to strengthen our firm’s internal control environment and overall quality • Evaluate responses and remediate control gaps or deficiencies <p>We perform an evaluation of our system of quality management on an annual basis. We publish the details of our annual evaluation, and our conclusion, in our Transparency Report, which can be accessed on our website at: https://www.forvismazars.com/uk/en/who-we-are/corporate-publications/transparency-reports.</p> | <p>Annual Audit Plan</p> |

Appendix A: Key communication points (continued)

| Required communication | Where addressed |
|---|---|
| <p>We are required to communicate certain matters to you which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include:</p> <ul style="list-style-type: none"> • Significant delays in management providing information that we require to perform our audit. • An unnecessarily brief time within which to complete our audit. • Extensive and unexpected effort to obtain sufficient, appropriate audit evidence. • Unavailability of expected information. • Restrictions imposed on us by management. • Unwillingness by management to make or extend their assessment of the entity’s ability to continue as a going concern when requested. <p>We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor’s report).</p> | <p>Annual Audit Report and audit clearance meetings</p> |

Appendix B: Current year updates, forthcoming accounting & other issues

HM Treasury changes to non-investment asset valuation

2025-26 Government Financial Reporting Manual (FReM)

Following a thematic review of non-current asset valuations for financial reporting in the public sector, HMT has made a number of changes to its requirements for the valuation frequency, valuation methodology and classification of non-investment property assets. The changes are effective from 1 April 2025 as set out in the 2025-26 FReM and include:

- A change to the requirements regarding revaluation frequency. Rather than adhering to paragraph 34 of IAS 16 which requires an asset to be revalued whenever its carrying value differs materially from its fair value, entities will be required to revalue assets on a quinquennial basis, i.e. every five years, supplemented by annual indexation in the intervening years. This requirement can be adhered to either as part of a full revaluation or as part of a rolling programme. The FReM requires bodies to use the best index available to them. Should management determine that there is no appropriate index to use, then the quinquennial valuation is supplemented by a valuation in the third year.
- The requirement to consider indicators of impairment under IAS 36 remains, so management will still be required to undertake an annual assessment of whether there are indicators of impairment, and where these are present, it may be necessary to undertake valuations outside of the 5-yearly valuation programme.

Whilst management will no longer need to consider annually whether it is necessary to revalue non-investment assets, they will need to be satisfied that they have appointed a suitably qualified valuer to undertake the valuation of assets whenever they fall due either as part of a full valuation or a rolling programme. If local indices are used, management will need to have sufficient evidence to demonstrate these indices are appropriate and relevant to the entity's circumstances, and to provide this evidence to the auditor.

Effective for accounting periods beginning on or after 1 January 2027

IFRS 18 Presentation and Disclosure in Financial Statements

The standard was UK-adopted in December 2025, and the date of incorporation into the FReM is not confirmed, though expected to be within the 2028/29 financial year. It is not yet confirmed what interpretations and adaptations HMT will determine are necessary for implementation in the public sector. We have provided an outline of the main changes arising from IFRS 18 as unadapted and without interpretation and will provide an update on the expected impact on SFC as and when detail is available as to when and how the standard is incorporated into the FReM.

IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18) is a new standard that replaces IAS 1 Presentation of Financial Statements. The new standard aims to increase the comparability, transparency and usefulness of information about companies' financial performance. It introduces three key new requirements focusing on the presentation of information in the statement of profit or loss and enhancing certain guidance on disclosures within the financial statements.

Appendix B: Current year updates, forthcoming accounting & other issues [Optional]

Effective for accounting periods beginning on or after 1 January 2027 (continued)

IFRS 18 Presentation and Disclosure in Financial Statements

- **New categories and subtotals for inclusion within the statement of profit or loss**
 - Income and expenses are to be classified into three new defined categories: operating, investing and financing, in addition to the income taxes and discontinued operations categories.
 - All companies are to present new defined subtotals – operating profit and loss, and profit or loss before financing and income taxes.
- **New reporting requirements on Management Performance Measures (MPMs)**
 - New requirements are introduced for management-defined performance measures (MPMs), which may also be called Alternative Performance Measures (APMs). These are described as subtotals of income and expenses that an entity: (a) uses in public communications outside financial statements; (b) uses to communicate to users of financial statements management's view of an aspect of the financial performance; and (c) are not listed within IFRS 18 or specifically required to be presented or disclosed by another IFRS Accounting Standard.
 - All MPMs are required to be disclosed in a single note in the financial statements setting out:
 - an explanation of why the MPM is reported, and
 - a reconciliation to a directly comparable GAAP measure within IFRS 18 or another IFRS Accounting Standard.
- **Enhanced requirements for aggregation & disaggregating information**
 - Enhanced requirements are set out for the aggregation and disaggregation of items based on similar and dissimilar characteristics. Items that have dissimilar characteristics must be disaggregated when the resulting information is material. Guidance is also included on how to describe items within the financial statements, requiring an entity to label items presented or disclosed as 'other' only if a more informative label cannot be found.
 - New guidance is provided on whether information should be reported in the primary financial statements or the notes. This includes guidance on presentation and disclosure of expenses classified in the operating category, alongside introducing more prescribed requirements for an entity that classifies expenses by function as well as the requirement to disclose expenses by nature in a single note for certain amounts - depreciation, amortisation, employee benefits, impairment and write-downs of inventories

Many principles and requirements have been brought forward from IAS 1 to IFRS 18 such as frequency of reporting, comparative information, offsetting, capital disclosures and the requirements for the statement of financial position and for the statement of changes in equity.

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