



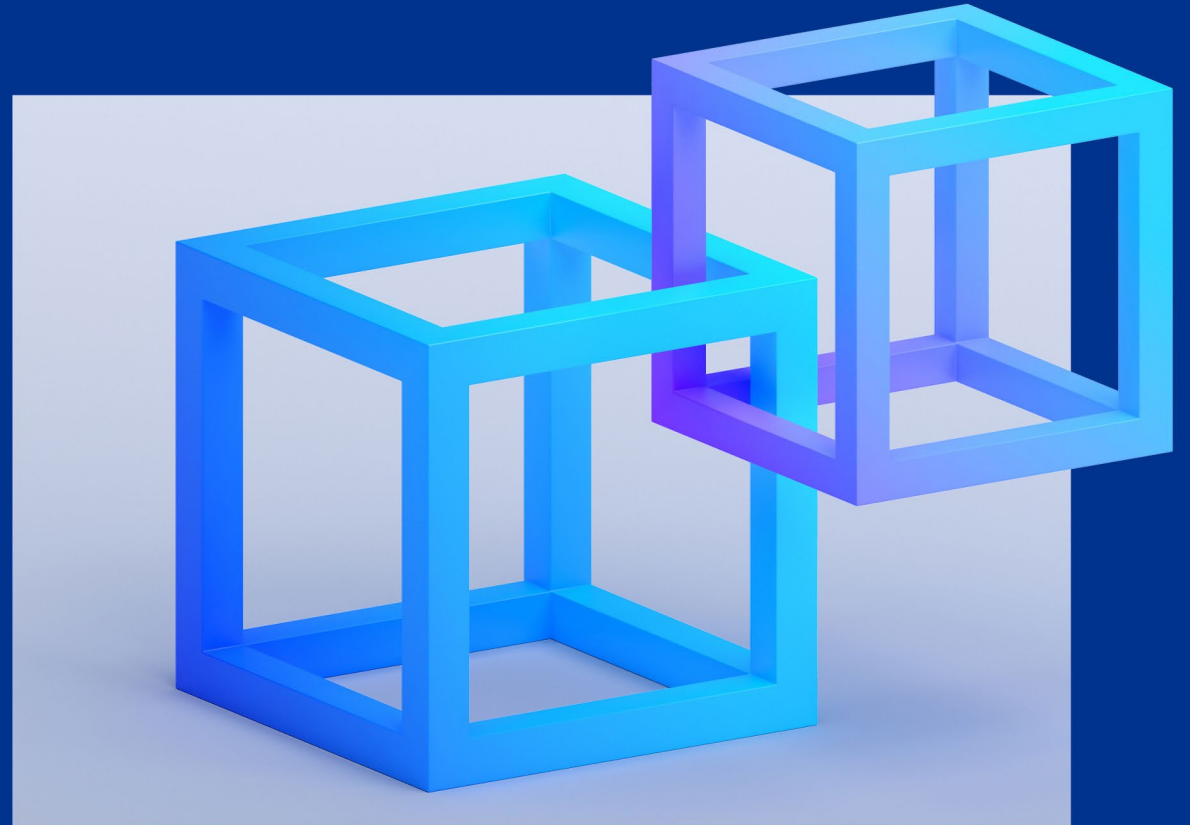
Scottish National Investment Bank plc

Report to the members of Scottish National Investment Bank
plc, the Auditor General for Scotland and the Scottish
Parliament

**Consolidated financial statements for the year ended
31 March 2025**

Report Date: 8 August 2025

Meeting Date: 11 August 2025



Introduction

To the Audit Committee of Scottish National Investment Bank plc

We are pleased to have met with you on 4 July 2025 to discuss the results of our audit of the consolidated financial statements of Scottish National Investment Bank plc (the 'Company') (the 'Group'), as at and for the year ended 31 March 2025.

We are providing this report in advance of our final meeting on 11 August to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 25 November 2024. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is complete other than those matters described at page 5.

There have been no significant changes to our audit plan and strategy.

Subject to the Board's approval, we expect to be in a position to sign our audit opinion on the Board's approval of the financial statements and auditor's representation letter, provided that the outstanding matters noted on page 5 of this report are satisfactorily resolved.

We expect to issue an unmodified Auditor's Report.

We draw your attention to the important notice on 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely,



Hannah Walsh

8 August 2025

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when:

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management; and,
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

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Important notice

This report is presented under the terms of Audit Scotland letter of appointment.

Circulation of this report is restricted.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the consolidated and parent company financial statements of Scottish National Investment Bank plc (the 'Company'), prepared in accordance with International Financial Reporting Standards ('IFRSs'), as interpreted and adapted by the 2024/25 Government Financial Reporting Manual (the "2024/25 FReM") as at and for the year ended 31 March 2025.

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 for the benefit of Scottish National Investment Bank Plc ('SNIB') and is made available to Audit Scotland, the Auditor General and the Scottish Government, as a body (together 'the Beneficiaries'). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, although we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Group's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors reporting to the Company's members in accordance with the Companies Act.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is substantially completed and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 5 'Outstanding matters' outlines the outstanding matters in relation to the audit.

Restrictions on distribution

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.



Our audit findings



Significant audit risks Page 7-10

Those marked as key audit matters will be covered in our final audit report.

Significant audit risks	Risk change (since planning)	Our findings
Management override of Controls	None	We have identified one prior year control deficiency remediated in the financial reporting process. Refer to page 7 and 13 for details.
Valuation of unlisted investments (key audit matter)	None	We found the Group's valuation of unquoted investments to be acceptable.
Accounting for intra-Group transfer of investment holdings (Company only)	None	We found the accounting for intra-Group transfer of investments holdings to be acceptable.

Key accounting estimates

Valuation of unlisted Investments	None	We assessed the valuation of unlisted investments as reasonable following our review of the variable inputs to each valuation. We have not identified any indicators of potential management bias.
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Corrected/Uncorrected Audit Misstatements

We have identified six corrected audit differences including differences in disclosure. See page 14 for details. We note that one of these relates to a prior year restatement in the SNIB plc cashflow.

We have identified four uncorrected audit differences during our procedures over the valuation of unlisted investments, and one over procedures over the parent company Statement of Changes in Taxpayers' Equity and balance sheet with an associated parent company Cash Flow impact. We have identified one further disclosure difference related to subsequent events.

Number of Control deficiencies Page 13

Significant control deficiencies	0
Other control deficiencies	2
Prior year control deficiencies remediated	1

Materiality Financial statements	Actual £'000	Planning £'000
Total assets	630,121	595,581
Materiality (Group)	14,900	14,900
Reporting threshold (Group)	745	745
Materiality (Parent)	14,600	14,600
Reporting threshold (Parent)	730	730

We have not identified any reason to revise materiality from that communicated at planning. The benchmark, total assets, has not significantly increased as at 31 March 2025.



Outstanding matters



Our audit is complete at the date of this report, subject to completion of the below matters and final file completion:

- Receipt of signed financial statement and management representation letter.
- Completion of post balance sheet events review up to date of sign off.

Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which the group operates.

We also use our regular meetings with senior management to update our understanding.

The only change in the risk map since the communication of our audit strategy is to reflect the fact that interest income is higher at period-end relative to the cash balance, however we have not assessed there to be any change in the risk of misstatement associated with these balances.

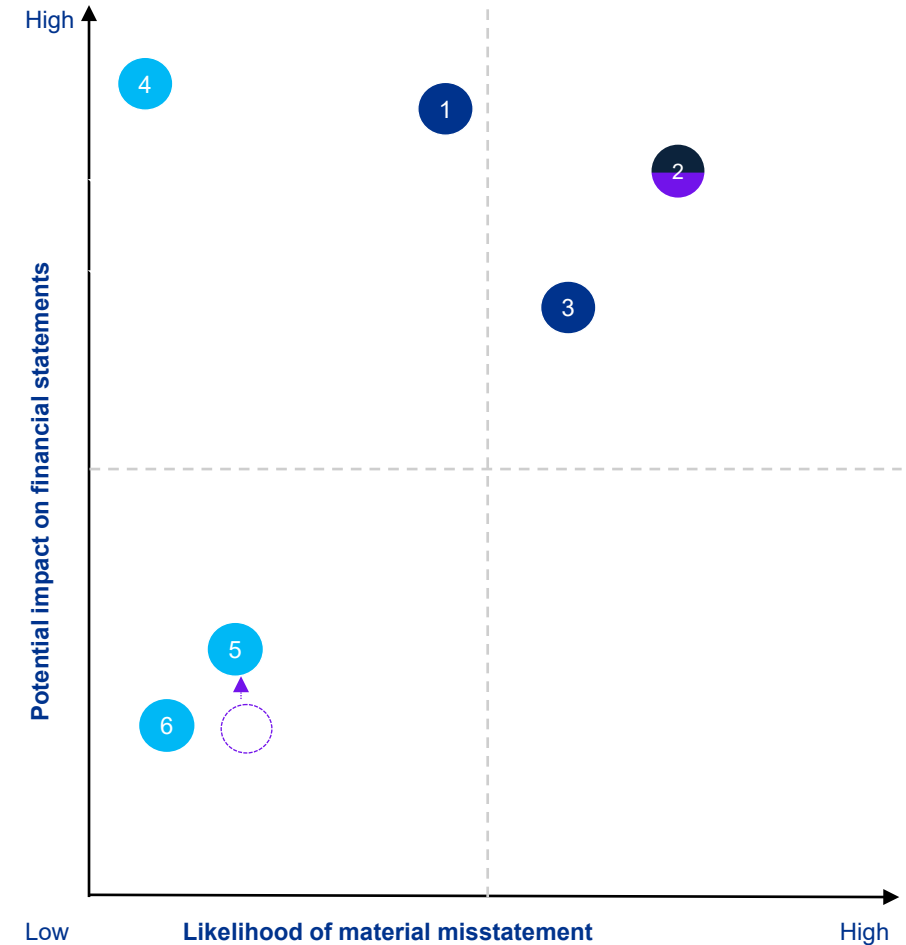
Significant risks

1. Management override of controls
2. Valuation of unlisted investments (Key audit matter)
3. Accounting for intra-Group transfer of investment holdings (Company only)

Other areas of audit risks

4. Going concern
5. Interest income
6. Cash

- Key:**
- # Significant financial statement audit risks
 - # Key audit matter and significant financial statement audit risk
 - # Significant financial statement audit risks
 - Increasing or decreasing risk compared with planning
 - # Other audit risk
 - # New key audit matter/significant audit risk/other audit risk



Significant risks



1 Management override of controls^(a)

Fraud risk related to unpredictable way override of controls may occur



Significant risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management of any company is 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.
- Other than potential for management bias on investment estimates, we did not initially identify any specific additional risks of management override relating to this audit.

- *Note: (a) Significant risk that professional standards require us to assess in all cases.*



Our response



Our findings

- Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we evaluated the design and implementation of controls over journal entries and post closing adjustments as well within the unlisted valuation process.
- As reported in prior year, we identified a control deficiency whereby amendments could be made to existing journals within Access Financials after approval for posting to the ledger, with no further review or approval documented. It was noted through inquiry with management that the functionality to amend journals was removed from the system during the period. This was substantiated during our walkthrough of the journals process. Further details on this matter are provided on page 13.
- We set high-risk criteria to test journals substantively.
- We screened all journal entries for high-risk attributes using KPMG Clara General Ledger Analysis.
- We identified journal entries meeting our high-risk criteria and material post close journals for testing. This testing is complete with no issues to note.
- We have assessed accounting estimates for bias by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias and did not identify any indicators of management bias.
- We have assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates with no issues noted.
- We have assessed the appropriateness of the accounting for significant transactions that are outside the Group's normal course of business or are otherwise unusual as applicable.

Significant risks (cont.)



2 Valuation of unlisted investments (key audit matter)

Risk that the carrying value of unlisted investments is materially misstated



Significant risk and key audit matter

- As at 31 March 2025, 96% (2024: 97%) of the Group's total assets (by value) are investments where no quoted market price is available and are therefore subject to inherent estimation uncertainty in determining their valuation.
- The primary factors considered in assessing which unlisted investments were subject to significant risk included the quantum of the individual investment, time since funding round, performance of the investment, nature of the asset held as well as the estimation uncertainty of the methodology and inputs used.
- Unlisted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines, by using measurements of value such as prices of recent orderly transactions, milestone analysis, discounted cash flows, earnings multiples, and valuing fund interests by reference to their reported net asset value.

Key:

0 Prior year 1 Current year



Our response

- **Methodology choice:** In the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines, we challenged appropriateness of the valuation basis selected.
- **Our valuations experience:** We challenged the directors on key judgements affecting investee company valuations, such as the choice of benchmark for earnings multiples where relevant, their consideration of milestones and analysis of progress against these, credit risk assessments and use of appropriate discount rates. We compared key underlying financial data inputs to external sources, investee company audited accounts where available and management information as applicable. We challenged the assumptions around maintainability of revenue or earnings based on the forecasts of the investee companies and whether these are achievable and we obtained understanding of performance against milestones. We challenged the key assumptions of credit ratings and credit spreads used to determine discount rates, used in the discounted cash flow valuations that determine fair values of loans. We consulted or involved KPMG credit risk and valuation specialists to assist the audit team in our work over certain aspects of the valuations where required. Our work included consideration of events which occurred subsequent to the period end up until the date of our audit report.
- **Comparing valuations:** Where a recent transaction is used to value a holding, we obtained an understanding of the circumstances surrounding the transaction whether it was considered to be on an arms-length basis and suitable as an input into a valuation. We also assessed whether subsequent changes or events such as market or entity specific factors would imply a change in value.
- **Assessing transparency:** We considered the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

Significant risks (cont.)



2 Valuation of unlisted investments (key audit matter)

Risk that the carrying value of unlisted investments is materially misstated



Significant risk and key audit matter

- We assessed that there is a significant risk associated with this matter due to the quantum of the balance, and the level of judgement associated with certain unobservable inputs. Therefore this is one of the key areas that our audit has focused on.
- The effect of these matters is that, as part of our risk assessment, we determined that certain of the unlisted investments are subject to significant estimation uncertainty in determining their valuation with a high degree of estimation uncertainty and a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.



Our findings

- We have considered the controls in place over the unlisted valuation process and substantively tested the year end valuations through a combination of independent verification and challenge over key judgements and assumptions. Please refer to page 13 for control deficiency identified.
- Based on our work and challenge of management, we have concluded that the valuations of investments are acceptable. At an overall portfolio level we consider the valuations to be neutral (2024: slightly optimistic area).

Key:
□ Prior year ■ Current year



Significant risks (cont.)



3

Accounting for intra-Group transfer of investment holdings

Risk that the intra-Group transfer of the investment portfolio into SNIB plc is not recorded appropriately



Significant risk (parent company)

- The intra-Group transfer of the portfolio of unquoted investments into the Company from its subsidiary, Scottish Investments Limited (SIL) meets the definition of a significant unusual transaction with a related party.
- There are various accounting considerations surrounding the transfer that give rise to risks of material misstatement for the Company and SIL.
- The transfer was recorded at fair value. The valuation of unlisted investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.
- SIL did not have reserves available for distribution at the beginning of the period. If the portfolio were to be transferred for a consideration less than fair value, there is a risk of creating a distribution from SIL to the Company which would not be allowable.



Our response

- **Fair value assessment and consideration:** Reviewed the valuation methodology used by management to determine the fair value of the investment portfolio on transfer which took place on 31 August 2024.
- **Distribution Implications:** Inspected the extinguishment of the intercompany loan from the Company to SIL and additional cash payments to confirm no deemed distribution was made by SIL.
- **Derecognition and Recognition Accounting:** Inspected the derecognition and recognition journal entries in SIL and SNIB plc respectively and confirmed that the accounting treatment was in line with the hive up agreement in place between the two entities.
- Our work over transfer of investments is complete. We have not identified any issues to report.



Our findings

Other areas of audit risks



4 Going Concern

Ability of the business to continue as a going concern



Other audit risk

- Management's assessment of the Group's ability to continue as a going concern involves consideration of all factors affecting the group.
- There is a risk that management's assessment of the Group's ability to continue as a going concern does not appropriately consider the impact of all external factors, including plausible but severe downside scenarios on the income and carrying value of assets.
- The risk that disclosures in the financial statements and the annual report are not adequate with regard to the effect of key risks to the financial position, performance, business model and strategy.



Our response



Our findings

- We have evaluated how management's risk assessment process identified business risks relating to events and conditions that may cast significant doubt on the ability to continue as a going concern.
- We have evaluated whether management's assessment had failed to identify events or conditions that may cast significant doubt on going concern and whether the method used by management is appropriate.
- We have assessed management's going concern assessment including the plausible but severe downside scenarios, particularly whether those downside scenarios reflect plausible external impacts on the business.
- We have evaluated whether sufficient and appropriate audit evidence had been obtained to conclude whether a material uncertainty exists and the appropriateness of management's use (or otherwise) of the going concern basis of accounting.
- We have evaluated whether there is adequate support for the assumptions underlying management's assessment, whether they are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit.

We consider director's assessment of going concern appropriate and have not identified material uncertainties in relation to going concern.

Other areas of audit risks (cont.)



5

Interest income

Income may be materially misstated

6

Cash

Cash balances may be materially misstated



Other audit risk

- Interest income earned through debt investments could be recorded in the incorrect period, at the incorrect amount (accuracy), or not recorded at all (completeness).



Our response

- We recalculated the investment income earned on debt investments in line with the terms and conditions stipulated in the investment agreements.
- We agreed investment income receipts for a selection of debts investments to bank statements.



Our findings

- Our work over interest income is complete. We will report a difference in the individual company reporting for SIL but no material issues noted for the group audit.



Other audit risk

- Cash balances, as reported by management, may not be complete or accurate, or the company may not have the rights to ownership of the bank accounts.



Our response

- We agreed year end cash balances recorded in the financial statements to third party confirmations received independently.
- We substantively tested the period-end balance reconciliation.



Our findings

- We concluded that cash balances are free from material misstatement

Other significant matters

Control deficiencies

We obtain an understanding of internal control to design appropriate audit procedures, but not to express an opinion on the effectiveness of the Group's internal control.

Key:

- These are significant control deficiencies which increase the likelihood and potential magnitude of a material misstatement in the financial statements. We have identified zero significant control deficiencies in the current year.
- These are matters of sufficient importance to note such as weaknesses which were subsequently corrected and matters that could be significant in the future if left unaddressed. We have identified two of such deficiencies in the current year.
- These are less significant weaknesses but which we considered to be of sufficient importance to merit management's attention. We have raised one related observations in the current year.

● Management review control over tax computations

The preparation of annual tax computations is outsourced. Management review the calculations, challenging the inputs and assumptions within, and prepare related disclosures for inclusion in the financial statements. Given the level of ongoing audit challenge over the tax computations, with one misstatement identified to-date, we have determined that management's review of the tax computations prepared externally is not sufficiently detailed to identify material misstatements. This has no impact on our audit approach but does impact the amount of time it takes to audit tax balances, including the input required from KPMG tax specialists.

● Controls over unlisted investments valuation

We note that the Valuation Committee review the valuation of unlisted investments and provide challenge on the assumptions and judgements which underpin the valuation of those investments. However, given the nature of unlisted investments and the subjective elements involved in determining their fair value, it is unlikely that Committee level control can operate to a sufficiently precise degree that would allow us to reduce our level of substantive audit procedures.

As the unlisted investments represent a key audit matter and significant risk, we are required to assess the design and implementation of this control, which as it is a Committee level review control is considered to be ineffective, for audit reliance purposes. We reach this conclusion as the control does not operate to a level of precision that could prevent material misstatement, given the judgement involved in the valuation of unlisted investments. This has had no impact on our audit approach.

For one investment, additional audit evidence was needed to be able to conclude on the valuation, beyond general audit challenge. The documentation and valuation workings provided to the audit team as part of the audit process did not sufficiently reflect the internal challenge and additional information considered by/available to management as part of their valuation process. Additional work and evidence was required to validate the valuation range and enhance evidence provided to us. We would expect all relevant information assessed to be included as part of the wider assessment and challenge of valuations and note management should consider in future when specialist input is sought on valuations.

Our work in respect of unlisted valuations is now complete following receipt of additional evidence from management.

● Controls over journals – prior year deficiency

During our prior year audit, we identified that that amendments could be made to existing journal entries within Access Financials after they had been approved for posting to the ledger, with no further review or approval documented. Posted journals were amended through this process in the prior year. Management have confirmed that the editing functionality within Access was turned off in July 2024, as soon as practicable after the point was raised in the prior year. Per our inquiries with management, this functionality was not used in the period up to July 2024 – we were not required to validate this and have not performed any related testing but based on inquiries, management have resolved this point with no impact during the current year.

Significant audit misstatements

Management has approved the correction of the audit misstatements detailed here and they are reflected in the draft financial statements. The misstatements identified, and their estimated financial impact on the profit before tax, are summarised in the table on the right.

The most significant disclosure misstatements relate to:

- the parent company cash flow statement, which was materially misstated due to presentation of the investment portfolio transfer as a cash movement. We also identified a prior year and current year misstatement of cash flow disclosures where loans to subsidiaries were classified as operating cash flows instead of investing.
- Cash injections made by SNIB plc to its subsidiaries were initially recorded as through equity in the parent company's financial statements, when they should have been treated as either expenses or capital contributions. This also has a corresponding effect on the cashflow statement presentation and the statement of comprehensive income. This also resulted in a prior year restatement.
- Errors were identified in the current and deferred tax note disclosures. In aggregate the disclosure impact is material.

In line with ISA (UK) 450 we request that you correct factual uncorrected misstatements.

- We have provided a separate update on valuation of investments testing, including uncorrected misstatements arising from these which are not material
- We note that certain uncorrected misstatements in relation to these arise from judgemental differences

Audit misstatements	Type	£k	Comment
Corrected misstatements			
Deferred tax entity reallocation (parent)	Factual	7,194	A deferred tax asset was initially recorded in Scottish Investments Services Limited. KPMG identified that the asset could not be utilised by the subsidiary and should be reallocated to the parent company.
Intercompany fees (parent)	Factual	(4,068)	Initial drafts of the financial statements included intercompany fees paid by the parent company to Scottish Investments Limited for investment advisory services. It was identified that fees had been posted without a signed investment advisory agreement, and upon KPMG challenge over potential cost sharing implications management chose to de-recognise the fees.
Directors' remuneration (NED fees)	Factual	(3.9)	KPMG identified that fees disclosed for two non-executive directors were overstated when compared to actual fees paid.
Parent company Statement of Changes in Taxpayers' Equity	Factual	11,800	Cash funding passed from the parent company to Scottish Investments Services Limited had been recorded through equity when it should have created a loss in the parent company.

Audit misstatements	Type	£k	Comment
Uncorrected misstatements			
Parent company Statement of Changes in Taxpayers' Equity	Factual	5,000	A cash injection to Scottish Investments Limited was recorded as an expense in the parent company's financial statements, when it should have been treated as created an investment in subsidiary. This also has a corresponding effect on the cashflow statement presentation where this amount is in operating activity when it should be investing activity, and the statement of comprehensive income.

Disclosure

Matter	IAS/IFRS ref	Comment
Parent company and consolidated cash flow	IAS 7	Misstatement due to incorrect classification of loans to subsidiaries as operating rather than investing items, and incorrect presentation of the investment portfolio transfer as a cash movement. Note that this has been updated in the current year cashflow statement but has also resulted in a prior year restatement. Some further errors were identified and corrected for the current year.
Consolidated and parent company tax disclosures	IAS 12	Misstatement due to incorrect and incomplete disclosures.

Types of misstatement

Factual: Misstatements about which there is no doubt

Projected: Our best estimate of misstatements in the audited populations

Judgemental: Differences arising from judgements of management that we consider unreasonable or inappropriate

Wider scope reporting

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice which required us to report on the company's arrangements in the context of four dimensions:

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

Our findings are summarised on pages 15-18. In our risk assessment associated with this work, we took into account both the nature and stage of the Bank's operations and its somewhat unique role as a public body as compared to other entities. The Bank is in an early stage of their operations; with certain processes and controls still evolving. This context is important to be mindful of and we have assessed these factors in light of that and the Bank's objective as a Development Bank, to invest in businesses and projects that support delivery of the Bank's missions and provide a commercial, risk-adjusted financial return.

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.

Work performed:

- Review of relevant policies;
- Inquires with the Executive team;
- Review of going concern assessment prepared by the directors (ref to page 11);
- Review of current funding arrangements with the Scottish Government

Findings:

- The Bank remains reliant on the Scottish Government and as we note in our going concern reporting, their support is subject to State Aid being in place. This expires in March 2026;
- It is intended that the Bank will become financially self-sustaining in the medium term. The Bank will achieve this by generating income from the investments it makes and by closely controlling its costs and expenses.

- The Bank has achieved this from an income and expenses perspective (excluding capital investment), however due to the non-cash nature of certain capitalised interest income, it is still reliant on this funding for cashflow and this will continue in the short term.
- The Bank continues to grow the investment portfolio in order to move towards sustainability, and during the period obtained FCA authorisation for Scottish Investments Limited (a subsidiary) in line with longer term business plans for the Bank to attract external funds to manage.
- Establishing and maintaining investments pipeline is crucial for achieving sustainability and will continue to be assessed in future periods. The Bank has diversified its investment portfolio, most notably by making debt investments (which generate regular income) as well as equity.

Conclusion

- We have not identified a significant risk in relation to financial sustainability. However, we note the reliance on the Scottish Government and recommend that engagement with them continues to progress to ensure further State Aid approvals are obtained where needed;
- Based on the work performed, we consider the arrangements in place to be appropriate for the nature and current stage of the Bank's operations.

Wider scope reporting - financial management



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

Work performed:

- Review of relevant policies;
- Inquires with the executive team;
- Review of internal audit reports.
- Walkthroughs of the finance processes relevant to reporting; and
- Audit work over annual reporting;

Findings:

- SNIB adopts a 'Financial Management policy' designed to ensure that the Bank operates with robust financial systems, processes, procedures and controls; and that the Bank complies with all relevant requirements for its financial records and reporting and a 'Financial Reporting policy'.
- Although there are variances to budgeted forecasts and cashflows, we note that this is largely due to the nature of the Bank's operations and factors that are inherently difficult to forecast, such as fair value gains or losses on investments
- We note that as part of our audit work, we raised a control deficiency over management's review of third-party tax computations, given the challenges raised by the audit team on these.
- A Valuation Committee is in place to review and challenge unlisted investment valuations reported and to approve new investments. A risk review on proposed valuations is also performed by the investment risk team. At present, specialists are often used to support valuation processes at time of initial investment, but not currently at future period ends.
- A fair balanced and understandable review of the financial statements is completed by the internal auditor and results reported to the Audit Committee.

- The key financial management processes in place include:

- financial planning, budgeting and forecasting;
- general ledger management and internal controls;
- treasury and cash management; and
- reporting:
 - annual reporting;
 - monthly and quarterly reporting;
 - financial reporting to Scottish Government.

- We note that actual performance was not in line with budget, however we note that due to the relative prominence of fair value gains or losses in these figures and factors that are more prone to change like planned conversions of debt investments, this is not unexpected as it pertains to investment related balances.

Conclusion

- We consider the arrangements in place to be appropriate for the nature and current stage of the Bank's operations.
- We note that actual performance was not in line with budget, however we note that We recommend that the Bank works with their tax specialist to ensure steps are taken to enhance the controls surrounding preparation of balances and disclosure of tax within the annual report.
- We recommend that the Bank continues to assess the need for any specialist valuation support when preparing the year end valuations as the portfolio will continue to grow and valuations become more complex.
- Management have confirmed that the control deficiency we reported in the previous year around journal entries has been remediated.

Wider scope reporting – 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.

Work performed:

- Reviewing the organisational structure, reporting lines and level of scrutiny within SNIB.
- Review of board and committee minutes.
- Review of relevant policies.
- Review of internal audit reports.
- Inquiries with the executive team.
- Reading the annual governance statement.

Findings

SNIB complies with the UK Corporate Governance Code in so far as it is relevant and applicable.

Section 172 statement

SNIB has also considered its duties under Section 172 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 as well as the 'Guidance on the Strategic Report' issued by the Financial Reporting Council and the UK Corporate Governance Code 2018.

Risk assessment

The bank has a risk management framework which summarises key processes and methodologies applied to identify, evaluate, mitigate and monitor and report risks.

The Bank also has procedures in place around due diligence of potential investment opportunity and ongoing monitoring and challenge of investment performance and valuation by the relevant committee.

The audit committee and board will review the annual corporate governance statement as part of the annual accounts review.

Further, we note the execution of the Bank's longer term strategy in authorisation of SIL and the connected transfer of the investment portfolio and the governance around this.

Conclusion

- We have not identified a significant risk in relation to vision, leadership and governance.
- Based on the work performed, we consider the arrangements in place to be appropriate for the nature and current stage of the Bank's operations.

Wider scope reporting – 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. The key controls and processes outlined in managements policies and procedures are:

Work performed:

- Review of relevant policies.
- Inquiries with the executive team.
- Review of internal audit reports.
- Walkthroughs of the relevant processes like expenses and investments (including segregation of duties).
- Audit work over expenses.

Findings

SNIB are subject to Public Procurement law including; Procurement Reform (Scotland) Act 2014 and Procurement Regulations (Scotland) 2015 and 2016 as well as Requirements of the Scottish Public Finance Manual.

SNIB adopted a 'Procurement and Outsourcing Policy' which summarises relevant processes design to ensure compliance with the value for money.

We draw attention to the fact that, as noted on p14 the nature of the Bank's operations are different to most public sector entities, and while we assess the above as part of expenditure testing, this is less material to the Bank than it would be to other public sector entities subject to the wider scope reporting. While the Bank is not subject to Best Value requirements in the same way as, for example, local government organisations, in our view the articulated design of the Bank's governance process around investment opportunities and monitoring is appropriate to address this consideration in the context of the Bank's activities.

The controls management have in place under vision, leadership and governance, particularly around investment governance, are pertinent here.

- **Separation of duties:** In accordance with the Scottish Public Finance Manual, the Bank will ensure separation of duties:
 - in procurement and the award of contracts: Between financial / budgetary authority and procurement authority; and
 - in the purchasing cycle: Between staff who place orders, those who receive goods or services, and those who authorise payment.
- **Supplier due diligence:** Undertaking an assessment of the risks associated with a requirement through collaboration with IT/Legal and Risk teams as appropriate to identify risks associated with contracts and determine what mitigation might be required for each. Applying a robust process for supplier selection that evaluates the expertise and technical ability of the supplier to deliver the required services/goods to the Bank.
- **Effective competition and value for money:** Engaging procurement support early, avoiding distressed purchases, and ensuring a strong link between Procurement and Finance on the management of supplier costs for budgeting purposes.
- **Appropriate contractual arrangements:** Including agreements review by Governance, Legal, Risk and Compliance

Material breaches will be reported to the audit and risk committees for challenge and awareness.

Conclusion

- We have not identified a significant risk over the use of resources to improve outcomes.
- Based on the work performed, we consider the arrangements in place to be appropriate for the nature and current stage of the Bank's operations.

Appendix

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Confirmation of independence



We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the partner and audit staff is not impaired.

To the Audit Committee members

Assessment of our objectivity and independence as auditor of Scottish National Investment Bank Plc and its subsidiaries (“the Group”)

Professional ethical standards require us to provide to you at the conclusion stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP’s objectivity and independence, the threats to KPMG LLP’s independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP’s objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

We have reviewed all non-audit services provided to the Company and its connected parties in the financial period to date and identified those that may have a bearing on our independence. Facts and matters related to the provision of non-audit services that may bear upon our independence, are set out in the table on the following page.

Confirmation of independence (cont.)



Analysis of Non-audit services for the year ended 31 March 2025

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the period ended 31 March 2025 £k	Value of Services Committed but not yet delivered £k
CASS audit for the Group's regulated subsidiary, Scottish Investments Limited (SIL), for the period ended 31 March 2025.	Reporting on CASS assurance engagements as required by the regulator.	Self-review & Management -In relation to reporting on regulatory returns, we consider that as the work involved is closely related to the work performed in the audit, the threats to independence are clearly insignificant. The self-review threat that could arise in relation to these services (if the subject matter is subsequently significant for our audit) is also limited. A management function threat could also exist	Given the threats to independence are clearly insignificant, safeguards need not specifically be applied. KPMG does not design or implement internal controls or make any accounting judgements within the financial statements, therefore we do not audit our own work. Management retain responsibility for any decisions made in relation to these areas and we do not take part in any implementation activity. Self-review and management function related threats are therefore mitigated.	Fixed fee	20	0

Fee ratio

The ratio of non-audit fees to audit fees for the year was 0.06:1.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Group and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

FRC's areas of focus

The FRC released their [Annual Review of Corporate Reporting 2023/24](#) ('the Review') in September 2024 having already issued three thematic reviews during the year.

The Review and thematic reviews identify where the FRC believes companies can improve their reporting. These slides give a high level summary of the key topics covered. We encourage management and those charged with governance to read further on those areas which are significant to their entity.



Key expectations for 2024/25 annual reports

Overview

The Review identifies that the quality of reporting across FTSE 350 companies has been maintained this year, but there is a widening gap in standards between FTSE 350 and non-FTSE 350 companies. This is noticeable in the FRC's top two focus areas, 'Impairment of assets' and 'Cash Flow Statements'.

'Provisions and contingencies' has fallen out of the top ten issues for the first time in over five years. This issue is replaced by 'Taskforce for Climate-related Financial Disclosures (TCFD) and climate-related narrative reporting'.

The FRC re-iterates that companies should apply careful judgement to tell a consistent and coherent story whilst ensuring the annual report is clear, concise and company-specific.

Pre-issuance checks and restatements

The FRC expects companies to have in place a sufficiently robust self-review process to identify common technical compliance issues. The FRC continues to be frustrated by the increasing level of restatements affecting the presentation of primary statements. This indicates that thorough, 'step-back' reviews are not happening in all cases.

Risks and uncertainties

Geopolitical tensions continue and low growth remains a concern in many economies, particularly with respect to going concern, impairment and recognition/recoverability of tax assets and liabilities. The FRC continues to push for enhanced disclosures of risks and uncertainties. Disclosures should be sufficient to allow users to understand the position taken in the financial statements, and how this position has been impacted by the wider risks and uncertainties discussed elsewhere in the annual report.

Financial reporting framework

The FRC reminds preparers to consider the overarching requirements of the UK financial reporting framework in determining the information to be presented. In particular the requirements for a true and fair view, along with a fair, balanced, and comprehensive review of the company's development, position, performance, and future prospects.

The FRC does not expect companies to provide information that is not relevant and material to users, and companies should exercise judgement in determining what information to include.

Companies should also consider including disclosures beyond the specific requirements of the accounting standards where this is necessary to enable users to understand the impact of particular transactions or other events and conditions on the entities financial position, performance and cash flows.



FRC's areas of focus (cont.)



Impairment of assets

Impairment remains a key topic of concern, exacerbated in the current year by an increase in restatements of parent company investments in subsidiaries.

Disclosures should provide adequate information about key inputs and assumptions, which should be consistent with events, operations and risks noted elsewhere in the annual report and be supported by a reasonably possible sensitivity analysis as required.

Forecasts should reflect the asset in its current condition when using a value in use approach and should not extend beyond five years without explanation.

Preparers should consider whether there is an indicator of impairment in the parent when its net assets exceed the group's market capitalisation. They should also consider how intercompany loans are factored into these impairment assessments.

Cash flow statements

Cash flow statements remain the most common cause of prior year restatements.

Companies must carefully consider the classification of cash flows and whether cash and cash equivalents meet the definitions and criteria in the standard. The FRC encourage a clear disclosure of the rationale for the treatment of cash flows for key transactions.

Cash flow netting is a frequent cause of restatements and this was highlighted in the ['Offsetting in the financial statements'](#) thematic.

Preparers should ensure the descriptions and amounts of cash flows are consistent with those reported elsewhere and that non-cash transactions are excluded but reported elsewhere if material.

Climate

This is a top-ten issue for the first time this year, following the implementation of TCFD.

Companies should clearly state the extent of compliance with TCFD, the reasons for any non-compliance and the steps and timeframe for remedying that non-compliance. Where a company is also applying the Companies Act 2006 Climate-related Financial Disclosures, these are mandatory and cannot be 'explained', further the required location in the annual report differs.

Companies are reminded of the importance of focusing only on material climate-related information. Disclosures should be concise and company specific and provide sufficient detail without obscuring material information.

It is also important that there is consistency within the annual report, and that material climate related matters are addressed within the financial statements.

Financial instruments

The number of queries on this topic remains high, with Expected Credit Loss (ECL) provisions being a common topic outside of the FTSE 350 and for non-financial and parent companies.

Disclosures on ECL provisions should explain the significant assumptions applied, including concentrations of risk where material. These disclosures should be consistent with circumstances described elsewhere in the annual report.

Companies should ensure sufficient explanation is provided of material financial instruments, including company-specific accounting policies.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

Judgements and estimates

Disclosures over judgements and estimates are improving, however these remain vital to allow users to understand the position taken by the company. This is particularly important during periods of economic and geopolitical uncertainty.

These disclosures should describe the significant judgements and uncertainties with sufficient, appropriate detail and in simple language.

Estimation uncertainty with a significant risk of a material adjustment within one year should be distinguished from other estimates.

Further, sensitivities and the range of possible outcomes should be provided to allow users to understand the significant judgements and estimates.

FRC's areas of focus (cont.)

Revenue

Disclosures should be specific and, for each material revenue stream, give details of the timing and basis of revenue recognition, and the methodology applied. Where this results in a significant judgement, this should be clear.

Presentation

Disclosures should be consistent with information elsewhere in the annual report and cover company-specific material accounting policy information.

A thorough review should be performed for common non-compliance areas of IAS 1.

Income taxes

Evidence supporting the recognition of deferred tax assets should be disclosed in sufficient detail and be consistent with information reported elsewhere in the annual report.

The effect of Pillar Two income taxes should be disclosed where applicable.

Strategic report and Companies Act

The strategic report must be 'fair, balanced and comprehensive'. Including covering all aspects of performance, economic uncertainty and significant movements in the primary statements.

Companies should ensure they comply with all the statutory requirements for making distributions and repurchasing shares.

Fair value measurement

Explanations of the valuation techniques and assumptions used should be clear and specific to the company.

Significant unobservable inputs should be quantified and the sensitivity of the fair value to reasonably possible changes in these inputs should provide meaningful information to readers.

Thematic reviews

The FRC has issued three thematic reviews this year: 'Reporting by the UK's largest private companies' (see below), 'Offsetting in the financial statements', and 'IFRS 17 Insurance contracts – Disclosures in the first year of application'. The FRC have also performed Retail sector research (see below).

UK's largest private companies

The quality of reporting by these entities was found to be mixed, particularly in explaining complex or judgemental matters. The FRC would expect a critical review of the draft annual report to consider:

- internal consistency
- whether the report as a whole is clear, concise, and understandable; notably with respect to the strategic report
- whether it omits immaterial information, or
- whether additional information is necessary for the users understanding particularly with respect to revenue, judgments and estimates and provisions

Retail sector focus

Retail is a priority sector for the FRC and the research considered issues of particular relevance to the sector including:

- Impairment testing and the impact of online sales and related infrastructure
- Alternative performance measures including like for like (LFL) and adjusted e.g. pre-IFRS 16 measures
- Leased property and the disclosure of lease term judgements, particularly for expired leases.
- Supplier income arrangements and the clarity of accounting policies and significant judgements around measurement and presentation of these.

2024/25 review priorities

The FRC has indicated that its 2024/25 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

 Industrial metals and mining

 Construction and materials

 Food producers

 Retail

 Gas, water and multi-utilities

 Financial Services



Newly effective accounting standards



Standards	Expected impact				Effective for years beginning on or after			Early adoption permitted
	High	Moderate	Low	None	01 Jan 2025	01 Jan 2026	1 Jan 2027	
Lack of exchangeability (Amendments to IAS 21) <i>The Effects of Changes in Foreign Exchange Rates</i>				○	✓			✓
Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 <i>Financial Instruments</i> and IFRS 7 <i>Financial Instruments: Disclosures</i> **			●			✓		✓
Annual Improvements to IFRS Accounting Standards – Amendments to: <ul style="list-style-type: none"> • IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>; • IFRS 7 <i>Financial Instruments: Disclosures and its accompanying Guidance on implementing IFRS 7</i>; • IFRS 9 <i>Financial Instruments</i>; • IFRS 10 <i>Consolidated Financial Statements</i>; and • IAS 7 <i>Statement of Cash flows</i> 			●		✓			✓
IFRS 18 <i>Presentation and Disclosure in Financial Statements</i> **			●				✓	✓
IFRS 19 <i>Subsidiaries without Public Accountability: Disclosures</i> **			●				✓	✓
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i>) *				○	TBD*			✓

*The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.

**Not yet endorsed by the UK Endorsement Board

Preparing to adopt IFRS 18

Presentation and disclosure in the financial statements



What's the issue?

The way companies communicate their financial performance is set to change.

In response to investors' calls for more relevant, transparent and comparable information, IFRS 18* requires all companies to:

- report a newly defined subtotal, '**operating profit**';
- disclose certain '**non-GAAP**' measures – such as management-defined performance measures (MPMs) – in the financial statements, meaning that they will now be subject to audit, e.g. 'adjusted' EBITDA; and
- improve how they group information.



What's the impact?

IFRS 18 will enable companies to tell their story better through their financial statements. Investors will benefit from greater consistency of presentation in the income and cash flow statements, and more disaggregated information.

Making certain 'non-GAAP' measures part of the audited financial statements will bring more credibility to management's key performance indicators.

Companies' net profit will not change. What is changing is how they:

- present their results on the face of the **income statement**; and
- disclose information in the **notes**.

IFRS 18 marks a step towards more connected reporting.



What's next?

IFRS 18 is effective from 1 January 2027 and applies retrospectively. Early adoption is permitted. Now is the time to get ready.

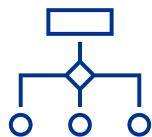
- Assess the impacts on your financial statements.
- Communicate the impacts with investors.
- Consider how the new requirements impact financial reporting systems and processes.
- Monitor any changes in the local reporting landscape.

Note that IFRS 18 has not yet been endorsed for use in the UK by the UK Endorsement Board.

* IFRS 18 Presentation and Disclosure in Financial Statements will replace IAS 1 Presentation of Financial Statements.

Preparing to adopt IFRS 18

What are the key changes?



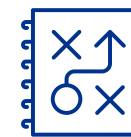
More structured income statement

- New subtotals including ‘operating profit’
- Income and expenses classified into three categories – operating, investing, financing
- Main business activities drive the classification of income and expenses



Disclosed and audited MPMS

- MPMS* are now disclosed in the financial statements and subject to audit
- MPMS capture some but not all ‘non-GAAP’ measures
- New disclosures may involve additional effort



Greater disaggregation of information

- New disclosures for items labelled as ‘other’
- Enhanced guidance on how to group information within the financial statements
- Remains a judgement area

* Management-defined performance measures

Required communications with the Audit Committee



Type	Response
Our draft management representation letter	<input checked="" type="checkbox"/> OK We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2025. We note the inclusion of a representation in relation to prior year adjustment.
Adjusted audit differences	<input type="checkbox"/> X Our findings include six adjusted audit differences impacting the parent company, including differences in disclosure.
Unadjusted audit differences	<input type="checkbox"/> X There were five unadjusted audit differences at the date of this audit report, reported in the separate document on unlisted investments.
Related parties	<input checked="" type="checkbox"/> OK There was one significant related party transaction in the period, being the transfer of the investment portfolio from SIL to SNIB plc. Refer to page 10 for details.
Other matters warranting attention by the Audit Committee	<input checked="" type="checkbox"/> OK There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	<input type="checkbox"/> X We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing. See slide 13.
Actual or suspected fraud, non-compliance with laws or regulations or illegal acts	<input checked="" type="checkbox"/> OK No actual or suspected fraud involving group or component management, employees with significant roles in group-wide internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.

Type	Response
Significant difficulties	<input checked="" type="checkbox"/> OK No significant difficulties were encountered during the audit to-date.
Modifications to auditor's report	<input checked="" type="checkbox"/> OK None.
Disagreements with management or scope limitations	<input checked="" type="checkbox"/> OK The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	<input checked="" type="checkbox"/> OK Our review of the draft annual report is complete.
Breaches of independence	<input checked="" type="checkbox"/> OK No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.
Accounting practices	<input checked="" type="checkbox"/> OK Over the course of our audit, we have evaluated the appropriateness of the Group's accounting policies, accounting estimates and financial statement disclosures. Our work is ongoing in this area.
Significant matters discussed or subject to correspondence with management	<input checked="" type="checkbox"/> OK No significant matters arising from the audit were discussed, or subject to correspondence, with management.

Compliance with the UK Corporate Governance Code



We have communicated the information we believe to be relevant to the board and the audit committee, in the context of fulfilling their responsibilities under the Corporate Governance Code provisions.

Our auditor's report sets out our responsibilities in relation to reporting on certain provisions of the UK Corporate Governance Code information relevant to understanding the rationale and evidence to support our professional judgement exercised in the course of the audit and in reaching an opinion on the financial statements. Our comments on additional areas are noted on right.

Emerging & principal risks

Our review of the financial statements to determine whether the principal and emerging risks facing the company and identified by management in the Annual Report are a robust assessment of the Company are complete with no issues noted.

Significant accounting policies

We consider that the accounting policies applied are appropriate in the circumstances of the Scottish National Investment Bank plc. We have also reviewed the application of these policies and are not aware of any significant areas where the policies have not been properly applied

Corporate Governance Disclosures

We are satisfied that the directors' statement of compliance with the provisions of the UK Corporate Governance Code (to the extent that we are required under the ISAs and the Listing Rules to report on that statement) and the directors' statements regarding going concern and longer-term viability are consistent with knowledge obtained during our audit.

Significant accounting estimates

We believe that management's valuation of unlisted investments caption which contain accounting estimates are appropriate, as noted within our findings presented on the significant and other audit risks on pages 8 and 9 of this paper.

Risk management & internal control

We identified three control deficiencies in financial reporting process based on the audit work performed to-date. Two are 'other' control deficiencies and one is a remediated prior year deficiency. Refer slide 13.

Audit quality, evidence & the timeline of completion activities

Audit quality is at the core of everything we do – the quality and timeliness of information received from management and those charged with governance also affects audit quality.

The timeline on this page is for illustration only and shows the timing of our completion activities around the signing of the audit opinion. We depend on well planned timing of our audit work to avoid compromising the quality of the audit. We aim to complete all audit work no later than 2 days before audit signing.

- Key:**
- ◆ One day activity
 - Activity over a period of time
 - Year end
 - Signing date of the Audit Report

Weeks before signing Audit Opinion	-2 weeks			-1 week		Completion week			Teams involved in the process
	Day 1	Day 3	Day 5	Day 1	Day 5	Day 1	Day 3	Day 5	
Individual day's activities									
Long Form Audit Report reviews and Going concern consultation, if applicable	■								Audit Team
Final audit fieldwork	■								Audit Team
Review significant risk audit areas and challenge work performed	■								RI
Going Concern consultation	■								DPP Accounting & Reporting
Review of the Long Form Audit Report	■								DPP Accounting & Reporting
Ensure points raised by the Long Form Audit Report review are dealt with	■								RI
Review Audit Committee report and draft accounts	■								RI
KPMG Audit Committee report issued		◆							Audit Team
Final Audit Committee					◆				Audit Team
Ensure Long Form Audit Report review and Going Concern consultation points have been satisfactorily dealt with							◆		Audit Team & DPP Accounting & Reporting
Final audit field work completed and signed off								◆	Audit Team
Stand-Back review								◆	Audit Team
Ensure all points raised are cleared								◆	RI





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