

Annual Audit Report

Scottish Funding Council– Year
ended 31 March 2023

September 2023



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Our reports are prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 18 May 2022 through which the Auditor General for Scotland has appointed us as external auditor of Scottish Funding Council (SFC) for financial years 2022/23 to 2026/27. We undertake our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000, as amended; and our responsibilities as set out within Audit Scotland's Code of Audit Practice 2021.

Reports and letters prepared by appointed auditors and addressed to the SFC are prepared for the sole use of the SFC and made available to Audit Scotland and the Auditor General for Scotland. We take no responsibility to any member or officer in their individual capacity or to any other third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

19 September 2023

Dear Committee Members and the Auditor General for Scotland

Mazars LLP
Capital Square
58 Morrison Street
Edinburgh
EH3 8BP

Annual Audit Report – Year ended 31 March 2023

We are pleased to present our Annual Audit Report for the year ended 31 March 2023. The purpose of this document is to summarise our audit conclusions and findings from our considerations of the wider scope audit specified in the Code of Audit Practice 2021 namely, financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Annual Audit Plan which we presented on 8 June 2023 to the Audit Committee. We have reviewed our Annual Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of the Scottish Funding Council's team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07813 752053.

Yours faithfully



Cameron Waddell (Audit Partner)
Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Audit conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2022/23 is set out in the Audit Scotland's Code of Audit Practice 2021. Our responsibilities and powers are derived from our appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000 and, as outlined in our Annual Audit Plan, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

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

- Management override of controls;
- IFRS 9 accounting
- Accounting for grants to colleges and universities.

Misstatements and internal control recommendations

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

Conclusions from our audit testing and audit opinion

We have concluded our audit in respect of the financial statements for the year ended 31 March 2023. Based on our audit work completed to date we have the following conclusions:



Audit opinion

We expect to issue an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



Regularity

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



Matters on which we report by exception

We are required by to report to you if, during the course of our audit, we have found that adequate accounting records have not been kept; the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit.

1. Executive summary (continued)

Conclusions from our audit testing and audit opinion (continued)



Governance Statement and Performance Report

We are required to report on whether the information given in the Governance Statement and Performance Report is materially inconsistent with the financial statements; has not been properly prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers; or is materially misstated.

We have no matters to report in respect of the Annual Governance Statement or the Performance Report.



Other information

We are required to report on whether the other information (comprising of the Performance Report and the Accountability Report and the unaudited parts of the Remuneration and Staff Report), is materially inconsistent with the financial statements; has not been properly prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers; or is materially misstated.

No inconsistencies have been identified and we expect to issue an unmodified opinion in this respect.



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the SFC's WGA submission. We are unable to commence our work in this area until such instructions have been received.

1. Executive summary (continued)

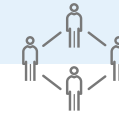
Wider Scope conclusions

As auditors appointed by the Auditor General of Scotland, our wider scope responsibilities are set out in the Audit Scotland's Code of Audit Practice 2021. The Code requirements broaden the scope of the 2022/23 audit and allows us to use a risk-based approach to report on our consideration of the SFC's performance and make recommendations for improvement and, where appropriate, conclude on the SFC's performance.

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

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

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



Wider Scope

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

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

02

Section 02:

Status of the audit

2. Status of the audit

We have concluded our audit in respect of the financial statements for the year ended 31 March 2023 and there are no outstanding matters of which we are aware that would require modification of our audit opinion.

03

Section 03: **Audit approach**

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in June 2023. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £40 million using a benchmark of 2% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements remains the same. However, we reduced our trivial threshold to £250,000 during fieldwork to reflect the cap on clearly trivial thresholds as per Audit Scotland Planning Guidance.

Service organisations

There has been one change in respect of the use of service organisations, as set out below.

Item of account	Service organisation	Audit approach
Cash equivalent transfer values of pensions as disclosed in the Remuneration and Staff Report	MyCSP	<p>We reviewed the source data SFC provided to MyCSP and agreed this to SFC payroll records.</p> <p>We reviewed reports provided by MyCSP to SFC and agreed these to the pension disclosures included in the Remuneration and Staff Report.</p> <p>We made use of Deloitte report provided by Audit Scotland (commissioned by the NAO) on 8 September 2023 to obtain assurance over the operation of the CETV calculator used to provide values to organisations where CETV figures are included in Remuneration and Staff Report disclosures i.e. where individuals are members of the Civil Service Pension Scheme. We also considered Deloitte's recommendations, disclosed in their report, in relation to control improvements.</p>

04

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

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

Significant risks

Management override of controls	Description of the risk
	Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: <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
	Audit conclusion Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.

4. Significant findings (continued)

Key areas of management judgement

IFRS 9 accounting	<p>Description of the management judgement</p> <p>The SFC financial statements do not reflect the adoption of International Financial Reporting Standard 9, Financial Instruments in accounting for loans to Higher Education institutes. The SFC has assessed the impact and concluded that the IFRS 9 adjustments and disclosures for its financial transaction balances is not material in the context of its 2022/23 financial statements. On this basis, it is not proposing to apply IFRS 9 in preparing its 2022/23 accounts.</p> <hr/> <p>How our audit addressed this area of management judgement</p> <p>We addressed this risk through performing audit work by:</p> <ul style="list-style-type: none"> critically evaluating the SFC’s decision not to apply IFRS9 in accounting for loans to Higher Education Institutes. undertaking substantive procedures to ensure that valuation of loans included in the financial statements are not materially misstated <hr/> <p>Audit conclusion</p> <p>We confirmed that SFC’s current accounting treatment would not have a material impact on the 2022/23 annual report and accounts.</p>
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Accounting for grants to colleges and universities	<p>Description of the management judgement</p> <p>The main activity of SFC is the award and payment of grants to colleges and universities. Due to the complexities around different year end dates and re-profiling of budgets, there is a risk that SFC incorrectly records grants in the financial statements.</p> <hr/> <p>How our audit addressed this area of management judgement</p> <p>We addressed this risk through performing audit work by:</p> <ul style="list-style-type: none"> evaluating the design and implementation of controls the SFC has in place which mitigate the risk of incorrect accounting for these grants. undertaking substantive procedures to ensure that grants are recorded appropriately in the financial statements. <hr/> <p>Audit conclusion</p> <p>Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.</p>
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4. Significant findings (continued)

Qualitative aspects of the SFC's accounting practices

We have reviewed the SFC's accounting policies and disclosures and concluded they comply with the Government Financial Reporting Manual (FReM) 2022/23, appropriately tailored to the SFC's circumstances.

Draft accounts were received from the SFC on 8 June 2023 and were of a good quality.

Significant matters discussed with management

During our audit we communicated the following significant matters to management:

- **First year audit procedures.** Auditing standards require us to carry out additional specific procedures in the first year of an audit. These included: seeking professional clearance confirmations from the predecessor auditor, reviewing the predecessor auditor's working papers and reports and specific additional procedures over brought forward balances. As part of this work, we discussed controls in place for key information systems with management.
- **IFRS 16 Leases.** IFRS 16 was introduced on 1 April 2022 and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right of use (RoU) the underlying leased asset and a lease liability representing its obligation to make lease payments.

Audit work has identified the addition of RoU asset in the Balance sheet and revising lease liabilities calculations in line with IFRS 16.

- **Remuneration and Staff report.** We critically reviewed disclosures, including CETV information disclosed for Directors' pensions. We have discussed with the management for seeking independent third party's assurance over CETV values contained in remuneration report. We received a Deloitte report commissioned by NAO and provided by Audit Scotland on 8 September 2023 where we have placed reliance on the work performed by Deloitte on reviewing the inputs of MyCSP calculator to determine the reasonableness of CETV values, which included recommendations for MyCSP to improve controls in some areas. In light of MyCSP being considered as a service organisation, we have reviewed the source data provided by SFC to MyCSP and agreed

it to SFC payroll records. We have also confirmed agreement of MyCSP reports to the pension disclosures included in the Remuneration and Staff Report.

Significant difficulties during the audit

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

4. Significant findings (continued)

Wider responsibilities – statutory reporting

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

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

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

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

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

At the time of issuing this report we have not yet received guidance from NAO on the 2022/23 WGA exercise.

05

Section 05:

Internal control recommendations

5. Internal control recommendations

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to Audit Committee any significant deficiencies identified during the course of our work.

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

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	3

5. Internal control recommendations (continued)

Other deficiencies in internal control – Level 2

Description of deficiency

Related parties' transactions – Register of Interest

Several of the signed declaration forms from the board members had incorrect dates and lacked signatures.

These declarations did not agree to recent Register of Interest published on website.

SFC website for ROI was updated with complete disclosures after the audit of related parties was undertaken.

Potential effects

Failure to update the register of interest may result in conflicts of interest going undisclosed thereby leading to incorrect or incomplete disclosure of related party transactions.

Recommendation

SFC should establish robust procedures for disclosures for related party interests and transactions and regularly update the register in line with declarations forms.

Management response

Management accepts this recommendation. This situation arose from the unexpected absence of the Board Clerk. This crystallised a key person risk. We have recruited resource and introduced a more robust process to ensure this does not recur. Responsible officer: Louisa Baker, DD Governance & Planning. Date to be implemented: 31/12/23

Other deficiencies in internal control – Level 3

Description of deficiency

IT general controls

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

Potential effects

Changes could be implemented without adequate approval, testing or segregation of duties

Recommendation

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

Management response

Management accepts this recommendation. We are refreshing IT policies as part of wider digital transformation. Responsible officer: Steve McDonald, CIO. Date to be implemented: 31/03/24

5. Internal control recommendations (continued)

Other recommendations in internal control – Level 3

Description of deficiency

Loans to Universities – signed agreements

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

Potential effects

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

Recommendation

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

Management response

Management accepts this recommendation. This situation arose from the move to hybrid working under Covid-19; we have reintroduced more formal signing processes this year. Responsible officer: Tiffany Ritchie, DD Finance. Date to be implemented: 31/12/23

Other recommendations in internal control - Level 3

Description of deficiency

IT general controls – User access

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

Potential effects

Users could have inappropriate access to the system.

Recommendation

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

2022/23 update

Management accepts this recommendation. This situation arose during a refresh of Finance policies & procedures (when approval forms were in transition), and once implemented the new Finance policies & procedures will prevent this recurring. Responsible officer: Tiffany Ritchie, DD Finance. Date to be implemented: 31/12/23

5. Internal control recommendations (continued)

Follow up on previous internal controls

Description of deficiency

IFRS 9 accounting

The annual report and accounts provided for audit did not reflect the adoption of International Financial Reporting Standard 9, Financial Instruments. IFRS 9 specifies how an entity should classify and measure financial assets and financial liabilities. SFC assessed the impact and concluded that the IFRS 9 adjustments and disclosures for its financial transaction balances is not material in the context of its accounts. On this basis, it did not apply IFRS 9 in preparing its accounts.

Potential effects

SFC will receive further financial transactions funding in 2022/23. This may result in its accounting treatment no longer being appropriate.

Recommendation

Management should review its accounting policy for financial transactions annually and assess whether to apply IFRS 9 in future.

2022/23 update

This area was formally reviewed during the year by the Finance Committee. We reviewed the SFC's current treatment during the audit, with no material issues arising. However, we recommend management to review the assessment of IFRS 9 annually.

Description of deficiency

ESF accounting

SFC's accounts are prepared on an accruals basis but it continues to account for ESF income on a cash basis. This is because in SFC's view the timing and receipt of this income is uncertain. In 2021/22 SFC received £11.7m of ESF funding. No further amounts have since been received, as the claims process is still ongoing.

Potential effects

There is a risk that the income figure in the annual accounts is understated.

Recommendation

Management should carry out an annual assessment of the accounting treatment of ESF funding to ensure it is in accordance with the FReM.

2022/23 update

All accounting policies were formally reviewed during the year by the Finance Committee. This included the accounting policy on ESF. This was reviewed during the course of audit and the action is now complete.

06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £250k.

Unadjusted misstatements

None identified

Adjusted misstatements

None identified

6. Summary of misstatements (continued)

Disclosure amendments

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

- **Performance report:-** Inclusion of additional information to cover disclosures required by the FReM:-
 - Adoption of going concern basis included in Performance overview section
 - Minor changes to the figures, dates, percentages, spelling errors in the report.
- **Remuneration and staff report:-** Inclusion of additional information to cover disclosures required by the FReM:-
 - Updating salaries and allowances bandings for both current and prior year due to change in pension benefits from negative brackets to nil figures as required by the FReM
 - Inclusion of PY comparatives of Board members in membership and remunerable table for completeness
 - Addition of consultancy costs note amounting to £0.9m at the footnote of staff report
 - Updating of Fair pay table figures to be in line with PY disclosures and current year narratives
 - Adding a narrative to fair pay table in relation to actual pay increase percentage used for highest paid director instead of midpoint pay rise
 - Updating of figures in staff costs table
- **Related Parties Transactions:-** Inclusion of additional information as set out below:
 - Amendment to include RSE and other entities in the related parties note as SFC has material transactions with them during the year.
 - Addition to the disclosure of the interest of Board members to be in line with recent Register of Interest published on SFC website.
- **Trade and other receivables:-** Amendment to trade receivable note in order to be consistent with the amount disclosed on the face of SOFP.
- **IFRS 16 Leases:-** Classification of Right of Use asset as a separate heading in the SOFP of £1,976k initially disclosed in PPE balance.
- **Leases liabilities:-** Updating maturity analysis for leases on building for “more than five years” figures by £259k which was incorrectly recorded as £539k in the initial set of accounts thereby amounting to £798k in Note 16.
- **Significant judgements and estimates:-** Deletion of ESF Income note from significant judgements and estimates section.
- **Capital and non-capital commitments:-** Amendment to the narrative of Note 15 to reflect the revised approach since grants committed to be paid figures have been updated on actual payment basis from this year onwards instead of “best estimates based on claim profiles”

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

07

Section 07: **Wider scope**

7. Commentary on Wider Scope

Overall summary



7. Commentary on Wider Scope

Wider scope summary





As auditors appointed by the Auditor General of Scotland, our wider scope responsibilities are set out in the Audit Scotland's Code of Audit Practice 2021. The Code requirements broaden the scope of the 2022/23 audit and allows us to use a risk-based approach to report on our consideration of the SFC's performance and make recommendations for improvement and, where appropriate, conclude on the SFC's performance.

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

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

Overall summary by reporting criteria

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

	Reporting criteria	Commentary page reference	Identified risks?	Actual risks identified?	Other recommendations made?
	Financial management	28	No	No	No
	Financial sustainability	30	No	No	Yes – see commentary on page 32
	Vision, leadership and governance	34	No	No	Yes – see commentary on page 38
	Use of resources to improve outcomes	40	No	No	No

7. Commentary on Wider Scope

Financial management

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



7. Financial management

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Financial management culture	<p>SFC has received positive feedback from internal audit with ratings of 1 and 2 out of 5 for grant funding distribution and key controls respectively (where grade 1 refers to low priority and 5 refers to high priority for attention).</p> <p>SFC's budget processes operated appropriately. Senior management and the Board continued to receive regular and accurate financial information on SFC's financial position during the year.</p>	<p>SFC has appropriate and effective financial management in place including regular budget monitoring and reporting.</p> <p>There are sufficient financial skills, capacity, and capability in SFC.</p>	No significant issues identified
Accountability	<p>SFC reports monthly to Executive team and to Scottish Government on SFC's financial performance. SFC also reports the financial performance to Finance Committee every 2 months. SFC achieved financial balance with an underspend of £1m in FY22-23, on a budget of £2bn.</p>	<p>SFC holds discussion on SFC financial performance at Executive, monthly meetings with SG, and SFC Finance Committee.</p>	No significant issues identified
Arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption	<p>SFC is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. The Board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place. We have reviewed the arrangements in place to maintain standards of conduct including the Board and staff code of conduct. SFC has up to date, appropriate whistleblowing and fraud prevention policy. An annual update on whistleblowing and fraud is also provided to audit committee.</p>	<p>There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption</p> <p>Controls within SFC's main financial systems are operating adequately and it has appropriate arrangements for prevention and detection of fraud.</p>	No significant issues identified

7. Commentary on Wider Scope

Financial sustainability

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



7. Financial sustainability

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
<p>Financial planning</p>	<p>SFC and the colleges and universities it funds continue to face financial challenges including the impact of Covid-19, rising pay, pension and running costs and inflation.</p> <p>College sector reported an adjusted operating surplus of £7.9 million in AY 21-22, a significant decrease £19.3 million surplus in the previous year. Rise in staff and operating costs is considered to be the biggest financial pressure. Other pressures highlighted by colleges include:</p> <ul style="list-style-type: none"> • decline in capital funding for estate maintenance, • increase in inflation, interest rates and energy costs, • difficulties in retaining students and staff, • competition from private sector training providers, • self-funding of staff restructuring and severance package costs, • impact of cost efficiencies on staff wellbeing and student experience. <p>SFC’s financial sustainability publication is currently in draft and is expected to be presented to the Executive Team in September 2023 and the Finance Committee in October 2023. This will be published in this autumn and includes a review of financial returns and financial indicators from colleges and universities to build a picture of the financial health of the sectors.</p>	<p>There is a risk that SFC does not have enough information to form a longer-term view of its finances, and that of the sectors, and its options for future funding.</p>	<p>Medium term financial planning – Level 3 SFC should continue to develop its reporting on financial sustainability in the colleges and universities sectors to produce longer-term financial plans.</p> <p>See page 34 for further information and our recommendations made to the SFC.</p>

7. Financial sustainability (continued)

Identified risks in financial sustainability arrangements and recommendations for improvement

As a result of our work we have identified risks in the SFC’s financial sustainability arrangements. These identified risks have been outlined in the table below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action; see Appendix E for further details.

Financial sustainability risks identified	Recommendation for improvement	SFC response and implementation timescale
<p>1 Medium term financial planning – Level 3</p> <p>There is a risk that SFC does not have enough information to form a longer-term view of its finances, and that of the sectors, and its options for future funding.</p>	<p>SFC should continue to develop its reporting on financial sustainability in the colleges and universities sectors to produce longer-term financial plans.</p>	<p>Management’s response Management accepts this recommendation. We are working to enhance and develop our monitoring and reporting on financial sustainability through increased use of benchmarks and risk-based focus to strengthen forward looking analysis on longer term financial planning.</p> <p>Responsible officer Ursula Lodge, DD Institutional Sustainability and Capital</p> <p>Implementation date 31 March 2024</p>

7. Financial sustainability (continued)

Follow up of previously-reported recommendations

In August 2022 Audit Scotland reported 1 recommendation to the SFC to address risks identified from our Wider Scope audit for financial sustainability. As part of our work in 2022/23, we followed up the progress made by the SFC against the recommendations made, and determined whether the risk remained during the year.

	Financial sustainability finding as reported by previous auditor	Management response and implementation timeframe	Work undertaken and judgements made in 2022/23	Conclusions reached
1	<p>Financial Sustainability</p> <p>SFC should continue working with colleges and universities to produce longer-term financial plans.</p>	<p>Management Response: Agreed</p> <p>Implementation timescale: 31 March 2023</p>	<p>Progress against the recommendation</p> <p>SFC’s financial sustainability publication is currently in draft and is expected to be published in this autumn.</p>	<p>Conclusions</p> <p>SFC should continue working with colleges and universities to produce longer-term financial plans.</p>

7. Commentary on Wider Scope

Vision, leadership and governance

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



7. Vision, leadership and governance

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Clarity of plans to implement the vision	<p>SFC has published its latest strategic plan 2022-2027 in November 2022 which sets out the vision for SFC and its priorities for the next five years. The plan includes four strategic objectives:</p> <ol style="list-style-type: none"> 1. Enabling people to learn and flourish 2. Generating new ideas and diffusing knowledge 3. Building a responsive, coherent, sustainable system 4. Making SFC an excellent organisation <p>The plan sets out further details on each objective and has identified priority areas of focus within each objective.</p>	<p>SFC's strategic plan sets out a clear vision and strategy for the organisation. It has a clear set of four strategic objectives.</p>	<p>No significant issues identified.</p>
Strategy and priorities	<p>SFC has an annual delivery plan which provides a high-level overview of the activity that helps SFC work towards its strategic objectives.</p> <p>SFC published its new delivery plan covering 2022-24 in March 2022.</p> <p>The Delivery Plan describes how SFC will achieve the ambition, objectives and priorities set out in the Strategic Plan 2022-27, and covers the first two years of that strategy, up to March 2024.</p>	<p>SFC's strategy and priorities are clearly set out in its delivery plan.</p>	<p>No significant issues identified.</p>

7. Vision, leadership and governance

Our overall assessment (continued)

Area assessed	Our findings	Our judgements	Risks identified
Governance arrangements	<p>The corporate governance framework within SFC centres on the Board, supported in its role by six committees including the Audit and Compliance Committee and the Finance Committee.</p> <p>The Board is responsible for establishing the strategic processes within SFC and arrangements for ensuring the proper conduct of the affairs of SFC.</p> <p>Our work, including discussions with the Audit Committee, identified the following issues:</p> <ul style="list-style-type: none"> • The importance of completing the ongoing governance review, to refresh and further clarify the roles and responsibilities of management, Committees and Boards. • The need to complete the delayed annual Board evaluation, and from this a clear training and development plan with associated skills matrix. • The need to provide Board and Committee members with more regular updates on the Board development plan, to give greater assurance on its progress on implementation and delivery. <p>SFC has taken action to improve its governance of cyber security:</p> <ul style="list-style-type: none"> • Cyber maturity assessments have been undertaken, one retrospectively, another for SFC’s current position, and a third for its forecasted maturity position by the end of this year. • In relation to ITDR planning, SFC has moved the production servers to Azure and it is in process to carry out their backup and recovery testing. • Cyber security incident and recovery strategies have been delayed due to a lack of available resource/ capacity for simulations • Targeting email phishing campaigns supported by mandatory learning is planned to begin in January 2023. 	<p>Governance arrangements are appropriate and support oversight of SFC’s activities and finances however SFC should work to improve them.</p> <p>SFC is taking action to improve its governance of cyber security however, SFC should further work to improve the governance of cyber security.</p>	<p>1. Governance arrangements:- Level 2 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> <p>2. Governance of Cyber security:- Level 2 In addition to the recommendation raised in Section 5 of our annual audit report, SFC should continue work to review and improve its governance of cyber security.</p> <p>See page 38 for further information and our recommendations made to the SFC.</p>

7. Vision, leadership and governance

Our overall assessment (continued)

Area assessed	Our findings	Our judgements	Risks identified
	<ul style="list-style-type: none"> SFC has prepared a draft paper on roles and responsibilities around information asset management and is working to finalise the paper. It plans to assign responsibilities to individuals, as part of a targeted group looking at addressing the back-office systems and processes. SFC is planning to establish data governance group (either CIO and DD Governance & Planning) once further resource and skills are secured. The CIO and DD Governance & Planning will be working with the rest of the organisation to plan, and effect change the change required to enhance existing governance structures. This action is delayed for now. 		
Financial and performance information	<p>SFC has now published its new Strategic Plan 2022-27 and updated the Delivery Plan for 2022-24 in line with the strategic plan.</p> <p>SFC has commenced quarterly reporting to Board to provide an annual progress report against key activities set out in the delivery plan.</p> <p>SFC needs to ensure it sets clear performance targets and measures in its new strategic plan and annual operating plan. It should clearly set out the basis on which current performance is measured and any key performance indicators.</p>	<p>SFC's performance report complies with FReM requirements, but reporting on performance could be clearer.</p>	<p>Performance measures- Level 2 SFC should work to further improve content of its performance report and ensure it sets clear performance targets and measures in its new strategic plan</p> <p>See page 38 for further information and our recommendations made to the SFC.</p>

7. Vision, leadership and governance (continued)

Identified risks in vision, leadership and governance arrangements and recommendations for improvement

As a result of our work we have identified risks in the SFC's vision, leadership and governance arrangements. These identified risks have been outlined in the table below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action; see Appendix E for further details.

Vision, leadership and governance risks identified	Recommendation for improvement	SFC response and implementation timescale
<p>1 Governance arrangements:- Level 2 There is a risk that SFC does not have an effective and clear governance framework and lacks oversight of officers over the performance measurement of strategic outcomes.</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>	<p>Management's response Management accepts this recommendation. We are expecting to deliver the governance review to Board members shortly; we are planning to complete the next Board evaluation by Spring 2024; and this will inform the Board development plan and clarify the process for reporting progress on its implementation and delivery.</p> <p>Responsible officer Louisa Baker, Deputy Director Governance & Planning</p> <p>Implementation date 31 March 2024</p>
<p>2 Governance of Cyber security:- Level 2 There is a risk that a cyber-attack would disrupt SFC's key financial systems and lead to a loss of data with financial and reputational consequences</p>	<p>SFC should continue work to review and improve its governance of cyber security.</p>	<p>Management's response Management accepts this recommendation. We are delivering a programme of work to enhance our cyber governance and IT resilience.</p> <p>Responsible officer Steve McDonald, Chief Information Officer</p> <p>Implementation date 31 March 2024</p>
<p>3 Performance measures – Level 2 There is a risk that SFC is unable to measure and demonstrate performance against its strategic objectives.</p>	<p>SFC should work to further improve content of its performance report and ensure it sets clear performance targets and measures in its new strategic plan</p>	<p>Management's response Management accepts this recommendation. We are recruiting Planning resource to take this forward.</p> <p>Responsible officer Louisa Baker, Deputy Director Governance & Planning</p> <p>Implementation date 31 March 2024</p>

7. Vision, leadership and governance (continued)

Follow up of previously-reported recommendations

In August 2022 Audit Scotland reported 2 recommendations to the SFC to address risks identified from our Wider Scope audit for vision, leadership and governance. As part of our work in 2022/23, we followed up the progress made by the SFC against the recommendations made, and determined whether the risk remained during the year.

	Vision, leadership and governance finding as reported by previous auditor	Management response and implementation timeframe	Work undertaken and judgements made in 2022/23	Conclusions reached
1	Governance of cyber security SFC should continue work to review and improve its governance of cyber security.	Management Response: Agreed Implementation timescale: 31 March 2023	Progress against the recommendation As stated in section 7 of our annual audit report SFC is taking action to improve its governance of cyber security however, SFC should work to complete planned actions improve the governance of cyber security.	Conclusions SFC should continue work to review and improve its governance of cyber security.
2	Performance report SFC should work to further improve the content and presentation of its performance report.	Management Response: Agreed Implementation timescale: 31 March 2023	Progress against the recommendation SFC's performance report complies with FReM requirements, but reporting on performance could be clearer and including more defined performance measures and targets linked to strategic plan.	Conclusions SFC should continue to work to further improve the content and presentation of its performance report.
3	Performance measures SFC should ensure it sets clear performance targets and measures in its new strategic plan and annual operating plan	Management Response: Agreed Implementation timescale: 31 October 2022	Progress against the recommendation SFC has published its new strategic plan 2022-2027 and recently commenced quarterly reporting to Board to discuss progress on the performance of the key activities set out within the delivery plan.	Conclusions SFC should ensure it sets clear performance targets and measures in its new strategic plan and annual operating plan

7. Commentary on Wider Scope

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.



7. Use of resources to improve outcomes

Our overall assessment

Area assessed	Our findings	Our judgements	Risks identified
Resources deployed to improve strategic outcomes	<p>SFC provides the outcomes delivered for their total funding in internal performance reporting. SFC also ensures funding to individual institutions delivers on the specific measures set out in their respective Outcome Agreements.</p> <p>However, it has been noted that there is no clear link provided in terms of financial and other resources used to reporting performance against the outcome.</p>	SFC should continue to work on a clear link between money spent and outputs and the outcome delivered.	As raised in Section 7 – Vision, leadership and governance section of annual audit report (Risk 3 – Performance measures), SFC needs to ensure it sets clear performance targets and measures in its new strategic plan and annual operating plan. It should clearly set out the basis on which current performance is measured and any key performance indicators
Needs of service users being met	<p>SFC conducts and reports on a college student satisfaction survey to ensure quality of service from the funding provided to colleges.</p> <p>SFC publishes the results of students' survey on its website. The latest survey was published in November 2022.</p>	SFC carries out a range of surveys of students to obtain their views on the services it provides. The results are used by SFC to measure performance and help inform strategic decision making.	No significant issues identified
Arrangements to deliver continuous improvements in priority services	<p>The accountable officer ensures arrangement have been made to secure Best Value.</p> <p>SFC carries out Best Value self-assessment exercises and report them to Audit Committee to provide a summary of progress made in delivering the agreed actions from Best Value self-assessment (recent being 2021).</p> <p>No material issues or areas of non-compliance have been noted</p>	No material issues or areas of non-compliance have been noted however SFC should continue to set out clear performance targets and measures in its new strategic plan and annual operating plan.	As raised in Section 7 – Vision, leadership and governance section of annual audit report (Risk 3 – Performance measures), SFC needs to ensure it sets clear performance targets and measures in its new strategic plan and annual operating plan. It should clearly set out the basis on which current performance is measured and any key performance indicators

7. Commentary on Wider Scope

Climate Change



7. Climate Change

In October 2021, the Scottish Government issued 'Public Sector Leadership on the Global Climate Emergency' guidance. This recommended that public bodies should consider climate risk and adaptation; reporting to external frameworks; and climate change performed linked to their objectives to ensure clear accountability on performance.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

Our commentary of the SFC's climate change arrangements

SFC is subject to national statutory climate targets under the Climate Change (Scotland) Act 2009. SFC's Net Zero & Sustainability Framework for Action is its published strategic net zero route map (November 2022) and sets out its intention to reach net zero by 2040-2045 in line with the national 2045 target. SFC has committed to annual published delivery reports on the plan and to refreshing it in 2026.

SFC also responds in their duty to move to full compliance with the Public Sector Leadership on Global Climate Emergency ([PSLGCE](#)) SG national compliance guidance for Scottish public bodies on carbon emissions reductions and adaptation. This is evident through SFC Carbon Management Plan and response under PSLGCE annual statutory carbon reporting.

SFC has considered the impact of climate change on its financial statements by including information on climate emergency within the Annual reports and accounts under performance report.

SFC's Accounts Directive to institutions also highlights its legal obligations under the Climate Change (Scotland) Act 2009.

SFC will increase scrutiny of climate risks, opportunities and impact within its financial information and in undertaking accounting and investing role with those institutions that are supported with public funding. SFC will prepare for increasing net zero public funding conditionality being applied by the SG to its budget, and through its funding practices with institutions.

The SFC Net Zero & Sustainability Framework for Action includes action points and narrative indicating a shift towards integrating and evolving relevant risk profiling, disclosure, and investing practices fully aligned with our statutory obligations on climate mitigation and adaptation.

Net Zero & Sustainability Framework sets out how SFC would pivot more firmly towards net zero and sustainability integration within its overall mission. This includes fully deploying its policy and funding levers, including increase in the level of information on climate action that will be asked for through our Outcome Agreement Guidance to institutions in 2023-24 and under new impact and accountability approaches to be developed with the tertiary education sector. It includes SFC's explicit commitment to continue to require all new building projects to achieve high sustainability standards linked to SFC capital funding for institutions.

Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

E: Wider scope and Best Value ratings

Appendix A: Draft management representation letter

Cameron Waddell
Mazars LLP
The Corner
Bank Chambers
26 Mosely Street
Newcastle upon Tyne
NE1 1DF

September 2023

Dear Cameron

Scottish Funding Council - Audit for the Year Ended 31 March 2023

This representation letter is provided in connection with your audit of the financial statements of Scottish Funding Council (the Council) for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 2005 and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

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

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Further and Higher Education (Scotland) Act 2005 and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

My responsibility to provide and disclose relevant information

I have provided you with:

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

Appendix A: Draft management representation letter

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

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

Accounting records

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

Accounting policies

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

Accounting estimates, including those measured at fair value

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

Regularity of Expenditure and Income

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

Contingencies

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

- information presently available indicates that it is probable that an asset has been impaired, or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

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

There are no contingent gains which should be disclosed.

Appendix A: Draft management representation letter

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Further and Higher Education (Scotland) Act 2005 and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

Laws and regulations

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

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

Fraud and error

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

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

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

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the Further and Higher Education (Scotland) Act 2005 and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

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

Impairment review

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

Appendix A: Draft management representation letter

Charges on assets

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

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

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

Future commitments

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

Right of Use assets and lease liabilities

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

Sponsor body

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

Other Matters

I confirm in relation to the following matters that:

- COVID-19 – I have assessed the continued impact of the COVID-19 Virus pandemic on the Council and the financial statements, including the impact of mitigation measures and uncertainties, and am satisfied that the financial statements and supporting notes fairly reflect that assessment.
- Ukraine – I confirm that I have carried out an assessment of the potential impact of the continued conflict in Ukraine on the Council and there is no significant impact on the Council's operations from restrictions or sanctions in place.
- I confirm that I have assessed the impact on the Council of the on-going Global Banking challenges, in particular whether there is any impact on the Council's ability to continue as a going concern, and on the post balance sheet events disclosures.

Appendix A: Draft management representation letter

Going concern

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

Performance related allocations

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

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Further and Higher Education (Scotland) Act 2005 and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM), require adjustment or disclosure have been adjusted or disclosed.

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

Performance Report

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

European Funding

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

Financial Transactions

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

Governance Statement

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

Appendix A: Draft management representation letter

Remuneration and Staff Report

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

Annual Report

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

Other Representations

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

Unadjusted misstatements

I confirm that there are no uncorrected misstatements.

Yours faithfully

Karen Watt

Chief Executive and Accountable Officer

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Appendix B: Draft audit report

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

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements in the annual report and accounts of Scottish Funding Council for the year ended 31 March 2023 under the Further and Higher Education (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and Notes to the accounts, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

In our opinion the accompanying financial statements:

give a true and fair view of the state of the body's affairs as at 31 March 2023 and of its net expenditure for the year then ended;

- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 FReM; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

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

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

Appendix B: Draft audit report

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

Risks of material misstatement

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

Responsibilities of the Accountable Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

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

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

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

Appendix B: Draft audit report

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

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

Reporting on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

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

Reporting on other requirements

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

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

Other information

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

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

We have nothing to report in this regard.

Appendix B: Draft audit report

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

Opinions prescribed by the Auditor General for Scotland on Performance Report and Governance Statement

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, we do not.

Appendix B: Draft audit report

undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Cameron Waddell
Key Audit Partner
For and on behalf of Mazars LLP
Mazars LLP
The Corner
Bank Chambers
26 Mosely Street
Newcastle upon Tyne
NE1 1DF

Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Appendix C: Independence (continued)

Fees for work as the SFC's auditor





We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Annual Audit Plan presented to the Audit Committee in 8 June 2023. We were appointed as auditors for the SFC in the 2022/23 financial therefore no comparatives have been provided in the below table. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2022/23 fees
Auditor remuneration	£93,750
Pooled costs	(£1,480)
Contribution to PABV costs	£0
Audit support costs	£2,660
Sectoral cap adjustment	£5,950
Total fees	£100,880




Fees for other work

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

Appendix D: Other communications

Other communication	Response
 <p>Compliance with Laws and Regulations</p>	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
 <p>External confirmations</p>	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
 <p>Related parties</p>	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
 <p>Going concern</p>	<p>We have not identified any evidence to cause us to disagree with the Accountable Officer that SFC will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>

Appendix D: Other communications (continued)

Other communication	Response
 <p>Subsequent events</p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
 <p>Matters related to fraud</p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition, we have assessed the adequacy of the SFC's arrangements for preventing and detecting fraud or other irregularities as part of the wider scope audit and concluded that they are sufficiently designed and implemented.</p> <p>We will obtain written representations from management, and Those Charged With Governance, confirming that:</p> <ol style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ol style="list-style-type: none"> i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
 <p>National Fraud Initiative</p>	<p>The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland and overseen by the UK's Cabinet Office, designed to prevent and detect fraud. The NFI uses data analytics to compare information held on individual by different public bodies to highlight the existence of fraud or error.</p> <p>The SFC submitted creditors and payroll data for the 2022/23 exercise and received matches for investigation in January 2023. We have monitored SFC's participation and progress during the 2022/23 audit. SFC have made good progress, processing 100% of their matches across all categories including 60 very high-risk matches.</p>

Appendix E: Wider scope and Best Value ratings

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

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

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

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