

# Annual Audit Report for Scottish Futures Trust Limited

Financial year ended 31 March 2024

Prepared for those Charged  
with Governance and the  
Auditor General for Scotland

3 September 2024



# Contents



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<b>Section</b>	<b>Page</b>
Executive Summary	3
Introduction	5
Audit of the annual report and accounts	6
Wider scope conclusions	25
<b>Appendices</b>	
1. Audit adjustments	39
2. Action plan and recommendations – Financial statements audit	41
3. Action plan and recommendations – Wider scope	42
4. Follow up of prior auditor recommendations for the previous year	43
5. Audit fees, ethics and independence	46
6. Communication of audit matters	49

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect Scottish Futures Trust Limited or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Executive Summary (1)

This table summarises the key findings and other matters arising from the external audit of Scottish Futures Trust Limited (SFT) and the Group and the preparation of the financial statements for the year ended 31 March 2024 for those charged with governance (Audit Committee) and the Auditor General for Scotland.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Group and SFT's financial statements give a true and fair view of the financial position of the group and SFT;
- the Group and SFT's financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (FReM);
- the Group and SFT's financial statements and the audited parts of the Remuneration Report and Staff Report have been prepared in accordance with the requirements of the 2023/24 Financial Reporting Manual (FReM) and directions made thereunder by the Scottish Ministers;
- 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; and
- the Performance Report and Governance Statement is prepared in accordance with the FReM and is consistent with the financial statements.

We are required to report whether other information published together with the audited financial statements in the Annual Report and Accounts is consistent with the financial statements and has been prepared in accordance with the requirements.

We received the accounts on time supported by good working papers. Our audit work was completed during June-July. Our findings are summarised on pages 10 to 24. We have not identified any adjustments to the financial statements that have impacted on the Company or the Group's net reported financial position, in the unaudited accounts.

There are some minor adjustments, all amended by management, and detailed in Appendix 1. We have not raised any new recommendations in our financial statements or wider scope work. Our follow up of recommendations from the prior year's audit are detailed in Appendix 4.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our work is complete. **We issued an unmodified opinion on the financial statements on 3 September 2024.**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team in completing the external audit.

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# Executive Summary (2)

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## Wider Scope

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Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code requires auditors to consider Scottish Future Trust's arrangements in respect of financial management, financial sustainability, vision, leadership and governance and use of resources to improve outcomes.

In our External Audit Plan for the year ended 31 March 2024 we documented our assessment of the wider scope risks and planned audit work. At the planning stage we did not identify any significant risks.

We outline our work undertaken in response to the arrangements in place and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out. We have not identified any significant risks from our review carried out subsequent to our planning and risk assessment.

Further details of the work undertaken are outlined on pages 26 to 37.

We have not raised any new recommendations for management as a result of our audit work on wider scope. Follow up of prior year recommendations raised are set out in Appendix 4.

# Introduction

## Scope of our audit work

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to Scottish Futures Trust Ltd and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

This Annual Audit Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit Committee in August 2024.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Responsibilities

Scottish Futures Trust has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts in accordance with proper accounting practices. Scottish Futures Trust is also responsible for compliance with legislation, and establishing arrangements over governance, propriety and regularity that enable it to successfully deliver its objectives.

Our responsibilities as independent auditors, appointed by the Audit Scotland, are set out in the Code, supplementary guidance, and International Standards on Auditing in the UK.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve officers from their responsibility to address the issues raised and to maintain an adequate system of control.

## Audit approach

Our audit approach was based on a thorough understanding of the group business and is risk based, and in particular included:

- An evaluation of the group's internal control environment, including its IT systems and controls;
- An evaluation of the component of the group based on a measure of materiality considering each as a percentage of the group's gross assets to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of Scottish Futures Trust Investments Ltd was required, which was completed by Grant Thornton UK LLP; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

## Adding value through our audit work

We aim to add value to Scottish Futures Trust throughout our audit work by

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our wider scope work
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- providing a tailored session for Board members on FReM accounting concepts

# Audit of the annual report and accounts

## Our approach to the audit of the financial statements



### Overall materiality

Group: £204,000 which represents 2% of the group's gross expenditure;

Company: £203,000, which represents 2% of the company's gross expenditure.

There is a change in materiality values since our final audit plan was communicated to you on 29 January 2024, as the final expenditure for 2023/24 was used as the basis of the calculation. The percentage chosen remains unchanged.

### Key audit matters

Key audit matters were identified as:

- Management override of controls (Group and Company);
- Valuation of the net pension liability (Company); and
- Valuation of Investments (Group).

### Internal control environment

In accordance with ISA requirements, we have developed an understanding of Scottish Futures Trust control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. In accordance with ISAs, over those areas of significant risk of material misstatement we consider the design of controls in place.

However, we do not place reliance on the design of controls when undertaking our substantive testing. We identified no material weaknesses from this work which would have caused us to alter the planned approach as documented in our plan.

### Recap of our audit approach and key changes in our audit strategy

We have not identified any changes in our approach since our Audit Plan presented to you on 29 January 2024. The risks identified remain the same.

# Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our audit approach was set out in our audit plan.

- We reviewed and updated our assessment of materiality from planning based upon your 2023/24 draft financial statements and concluded that materiality is £204,000 for Group representing 2% of consolidated group gross expenditure (£209,011 2022/23) and £203,000 for the Company representing 2% of Scottish Futures Trust Ltd gross expenditure (£179,000 2022/23).
- Performance materiality was set at £153,000 for the Group (Company only: £152,250), representing 75% of our calculated materiality (2022/23 Group £125,406 and Company £107,400).
- We report to Officers (Management) any difference identified over £10,200 for the Group (£10,500 2022/23) and £10,200 for the Company (£9,000 2022/23)
- Due to the public interest in senior officer remuneration disclosures, we apply specific audit procedures to this work and set a lower materiality level for this area. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We evaluate errors in the remuneration report for both quantitative and qualitative factors against this lower level of materiality. We will apply heightened auditor focus in the completeness and clarity of disclosures in this area and will request amendments to be made if any errors exceed the threshold we have set or would alter the bandings reported for any individual.

We have applied a lower materiality threshold for disclosures within the Remuneration Report to Senior Officer and Board Member Remuneration Tables, the lower materiality applied to this area was £25,000 (£25,000 2022/23).

## Component materiality

- Where audit work on other components is being performed using component materiality, this has been set at £194,112 with the component materiality used reflecting the contribution of that component to the group.

## Detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Scottish Futures Trust Ltd and its Group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the Code of Audit Practice.
- We enquired of Senior Officers and the Audit Committee through email confirmation, concerning Scottish Futures Trust's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Audit Committee through email confirmation, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of Scottish Futures Trust and its group financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We have reviewed the principal risks to journal entries that could alter Scottish Futures Trust's financial performance for the year and the risk of fraud in expenditure recognition. Our audit procedures in relation are documented within our response to the significant risk of management override of controls below.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in certain account balances and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - Scottish Futures Trust and its group operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - Scottish Futures Trust's control environment, including the policies and procedures implemented by Scottish Futures Trust to ensure compliance with the requirements of the financial reporting framework.



# Group audit approach

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The table below summarises our final group scoping, as well as the status of work on each component.

Component	Significant	Scope - planning	Scope - final	Auditor	Status	Comments
Scottish Futures Trust Ltd	Yes			Grant Thornton UK	Green	Our work is complete with regards to the audit of Scottish Futures Trust Ltd. Our findings are summarised on pages 10 - 24.
Scottish Futures Trust Investments Limited	Yes			Grant Thornton UK	Green	The audit of SFTi Ltd is substantially complete. Subject to the outstanding matters listed on page 3, there are no material issues or significant control deficiencies have been identified that would impact on the group financial statements.



Full scope audit procedures will be performed to component materiality by the group audit.

Audit of specified financial statement line items to component materiality by the group audit team.

Out of scope components are subject to analytical procedures performed by the Group audit team to group materiality.

**Green**

Green - planned procedures are substantially complete with no significant issues outstanding.

**Amber**

Amber - planned procedures are ongoing/subject to review with no known significant issues.

**Red**

Red - planned procedures are incomplete and/or significant issues have been identified that require resolution.

# Overview of audit risks

The table below summarises the key audit matters, significant and other risks discussed in more detail on the subsequent pages.

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Key audit matter	Level of judgement or estimation uncertainty	Testing approach	Findings
Management override of controls	Significant	↔	✓	✓	Low	Substantive	● Green
Valuation of the pension fund net liability	Significant	↔	✗	✓	High	Substantive	● Green
Valuation of Investments	Significant	↔	✗	✓	High	Substantive	● Green

↑ Assessed risk increase since Audit Plan

↔ Assessed risk consistent with Audit Plan

↓ Assessed risk decrease since Audit Plan

**Green** - Not considered likely to result in material adjustment or change to disclosures within the financial statements

**Amber** - Potential to result in material adjustment or significant change to disclosures within the financial statements

**Red** - Likely to result in material adjustment or significant change to disclosures within the financial statements

# Significant risks and Key Audit Matters (1)

## Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the External Audit Plan.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group and Company's financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

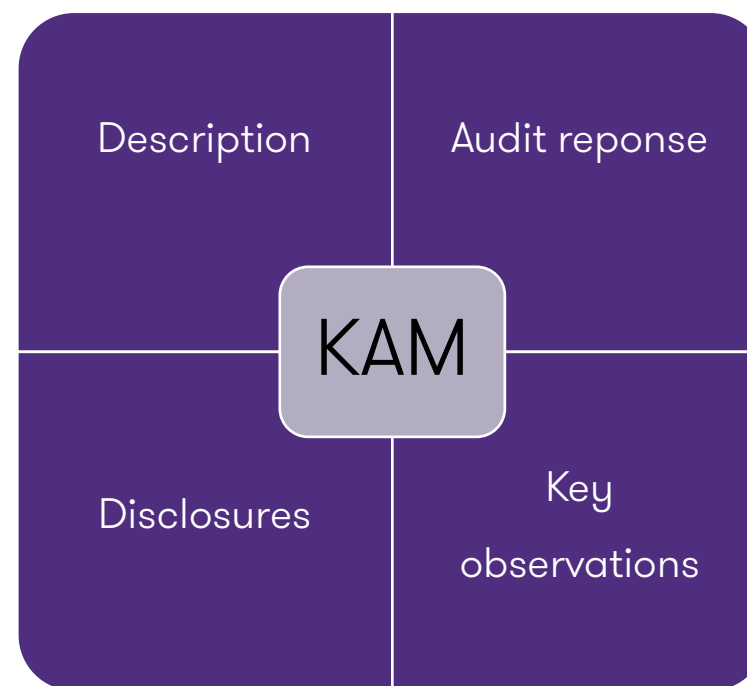
These matters included those that had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Other risks

Other risks are, in the auditor's judgment, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.



## Significant risks and Key Audit Matters (2)

Other significant risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Management override of controls</b></p> <p>As set out in ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity's internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions.</p>	<p>Group and SFT Ltd</p>	<p>In response to the risk highlighted in the audit plan we carried out the following work:</p> <ul style="list-style-type: none"> <li>• Documented our understanding of and evaluated the design effectiveness of management's key controls over journals;</li> <li>• Analysed your full journal listing for the year and use this to determine our criteria for selecting high risk journals;</li> <li>• Tested the high risk journals we have identified;</li> <li>• Gained an understanding of the critical judgements applied by management in the preparation of the financial statements and considered their reasonableness;</li> <li>• Gained an understanding of the key accounting estimates made by management and carried out substantive testing on in scope estimates.</li> <li>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions</li> </ul> <p><b>Our results</b></p> <p>Our testing of journals has identified one control weakness:</p> <ul style="list-style-type: none"> <li>• Journals can be authorised and approved the same individual, regardless of the amount being posted. Due to the size of the finance team, finance team members have the ability to post and approve their own journals, this creates a risk that inappropriate journals could be posted without being detected through review. The organisation does have other mitigating controls in place to reduce this risk including review of monthly financial outturns against budget.</li> </ul> <p>We raised this recommendation last year which management have now addressed with IT controls now in place from February 2024 which ensures all journals are subject to review before being posted.</p> <p>Control recommendations in relation to the above have been followed up within the Action Plan in Appendix 4. Our testing of journals has not identified any inappropriate or fraudulent journal postings in the financial year.</p>

## Significant risks and Key Audit Matters (3)

Other significant risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>As set out in ISA (UK) 240 (Revised May 2021) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>(rebutted)</p>	Group and SFT Ltd	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the SFT Ltd and the Group, we have determined that the risk of fraud arising from revenue recognition for all revenue streams can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited due to the majority of revenue received being grant funding from the Scottish Government.</li> </ul> <p>Therefore we do not consider this to be a significant risk for the SFT Ltd and the Group.</p> <p><b>Our results</b></p> <p>Our work has not identified any issues in relation to revenue recognition.</p>

## Significant risks and Key Audit Matters (4)

Other significant risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Risk that expenditure, including operating expenditure and associated creditor balances is not complete (Practice Note 10)</b></p> <p>Due to the presumption that there are risks of fraud in expenditure recognition, we are required to evaluate which types of expenditure, expenditure transactions or assertions give rise to such risks. Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". (rebutted)</p>	Group and SFT Ltd	<p>Having considered the risk factors set out in ISA 240 and the nature of the expenditure streams at SFT and the Group, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate expenditure recognition;</li> <li>• opportunities to manipulate expenditure recognition are very limited; and</li> <li>• regular dialogue with the Scottish Government to monitor financial performance provides limited opportunity to manipulate the financial position.</li> </ul> <p>A large proportion of the SFT's expenditure relates to advisory fees and payroll costs. These expenditure streams and processes are largely automated. Controls have also been designed and implemented to mitigate any fraud within these expenditure streams and therefore the risk of fraud in expenditure recognition is deemed low.</p> <p>Therefore, we do not consider this to be a significant risk for Scottish Futures Trust and the Group.</p> <p><b>Our results</b></p> <p>Our work has not identified any issues in relation to expenditure recognition.</p>

# Significant risks and Key Audit Matters (5)

## Other significant risks identified in our Audit Plan

## Risk relates to

## Commentary

### Valuation of the pension fund net asset

Scottish Futures Trust Ltd participates in the Lothian Pension Fund, a local government pension scheme. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Scottish Futures Trust Ltd is required to recognise its share of the scheme assets and liabilities in its Statement of Financial Position. As at 31 March 2024 the Company recorded a pension fund asset which was capped at of £nil within the draft statement of accounts. (Refer to slide 19 for further details regarding asset ceiling cap.)

The company's actuary Hymans Robertson provide an annual IAS 19 actuarial valuation of Scottish Futures Trust's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme's gross assets and gross liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme net liability/asset could be materially misstated within the financial statements. This risk is focussed on the appropriateness and reasonableness of the underlying assumptions adopted by the actuary and the suitability of these for the company.

We identified the defined benefit pension scheme valuation as one of the most significant assessed risks of material misstatement due to error.

Group and SFT Ltd

In response to the risk highlighted in the audit plan we carried out the following work:

- Obtained an understanding of the processes and controls put in place by management to ensure that the pension fund net liability/asset is not materially misstated and evaluate the design of the associated controls;
- Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- Assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;
- Assessed the accuracy and completeness of the information provided by SFT to the actuary to estimate the liability;
- Tested the consistency of the pension fund net liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as an auditor's expert) and performing any additional procedures suggested within the report; and
- Requested and obtained pension protocol assurance letters from the Lothian Pension Fund Auditor.

### Our results

Our work has not identified any material issues in relation to the valuation of the pension fund net asset.

# Significant risks and Key Audit Matters (6)

Other significant risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Valuation of Investments</b></p> <p>The Scottish Government grants SFT capital funds which SFT grants on to SFTi for investment in subordinated debt and share capital in special purpose vehicles and working capital in hub company's. The Scottish Government also provides repayable grant to SFT which SFT then grants onto SFTi for investment in subordinated debt and share capital in special purpose vehicles.</p> <p>You value your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.</p> <p>Valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved £19.573 million (PY: £19.401 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore have identified valuation of investments as a significant risk to the group financial statements.</p>	Group	<p>In response to the risk highlighted in the audit plan we carried out the following work:</p> <ul style="list-style-type: none"> <li>• Evaluated management's processes for valuing investments and gained an understanding over the valuation process</li> <li>• Reviewed the component auditor file and testing performed by the component auditor to gain assurance over the value of investments contained within the consolidated group accounts.</li> <li>• Reviewed workings to calculate the fair value of equity investments held by SFTi to ensure these are accurate. We also reviewed the assumptions used in the fair value calculation to ensure these are reasonable.</li> <li>• We reviewed managements expected credit loss assessment in relation to financial assets.</li> </ul> <p><b>Our results</b></p> <p>No material issues have been identified in relation to the valuation of investments.</p>



# Financial Statements – key judgements and estimates (1)

As required in Scottish Futures Trust's Accounting Policies note, officers outline critical judgements in applying accounting policies and in addition, assumptions about the future and other sources of estimation uncertainty. In particular, where estimates and judgements are identified, these should be quantified.

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

## Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Orange] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Yellow] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## Financial Statements – key judgements and estimates (2)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Right of Use Asset: depreciation including useful economic lives (UELs). – £90,032</p>	<p>SFT recognises depreciation of the right-of-use asset using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term and interest on the lease liability.</p>	<p>We are satisfied based on audit work performed that the estimate of your depreciation charge is not materially misstated.</p>	Green
<p>Accruals -£504,847</p>	<p>Accruals will be based on actual information on balances owed (eg. invoices) where possible but in some cases estimates may be used where it is not possible to determine the exact amount to be accrued (for example, from an invoice).</p> <p>Where this isn't possible, the assumptions will vary depending on the accrual however business accountants will use their professional judgement in determining an appropriate estimate. This may be based on methods such as pro-rata calculations, for example.</p> <p>Source data used will depend on the nature of the specific accrual but is likely to include amongst other items such as invoices, contracts, timesheets and correspondence with third parties.</p>	<p>We are satisfied based on audit testing of accruals the accruals balance is not materially misstated.</p>	Green

# Financial Statements – key judgements and estimates (3)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of the net defined pension asset	<p>The company's net pension asset at 31 March 2024 has been capped at £nil (PY asset £2.768m) . SFT uses Hymans Robertson to provide actuarial valuations of the defined benefit assets and liabilities. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2024. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £2.862m net actuarial loss during 2023/24 (this is due to the asset cap placed under IFRIC 14).</p>	<p>We reviewed your assessment of the estimate considering:</p> <ul style="list-style-type: none"> <li>• We have obtained an understanding of the processes and controls put in place by management to ensure the group's pension fund net asset is not materially misstated and evaluated the design of associated controls;</li> <li>• We have assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;</li> <li>• We have assessed the impact of any changes to the valuation method;</li> <li>• We have assessed the accuracy and completeness of information provided by the SFT to the actuary to estimate the liability;</li> <li>• We have used PwC as our auditors expert to assess the actuary and assumptions made by actuary.</li> </ul> <p>As assumptions applied have been found to be within the appropriate range by our auditor's expert we have determined the overall assessment of assumptions applied as reasonable.</p> <p>No audit adjustments have been identified as a result of our work performed. The pension asset has been capped at £nil in line with your actuary's calculation of the IFRIC 14 asset ceiling cap. This is due to a number of differences however the main difference relating to the triennial valuation results now being available and used in the 2024 IAS19 calculations. The 2023 asset ceiling calculation used the previous 2020 funding valuation primary contribution rate of 20.2%. The 2024 asset ceiling calculation uses the 2023 funding valuation primary contribution rate of 26.5%. This results in the present value of future service contributions being greater than the present value of future service costs which results in the asset being capped at £nil.</p>	<p>Green</p> <p>Management requested the actuary to undertake an IFRIC 14 assessment which was included within the draft accounts provided to audit.</p> <p>We consider the assumptions used by the actuary to be reasonable.</p>

# Financial Statements – key judgements and estimates (4)

## Significant judgement or estimate

### Summary of management's approach

### Audit Comments

### Assessment

Valuation of Investments

The Group hold investments in subordinated debt and share capital in special purpose vehicles and working capital in hub company's. There are a number of complex models and assumptions underpinning the valuation of investment which include level three inputs. Valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved £19.572 million (PY: £19.401 million) and the sensitivity of this estimate to changes in key assumptions.

The audit of SFTi and the valuation of investments is complete. No material issues have been identified in relation to the valuation of investments.

Green

## Other key elements of the financial statements (1)

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts:

Issue	Commentary
<b>Matters in relation to fraud and irregularity</b>	It is Scottish Futures Trust Ltd's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from officers and those charged with governance regarding SFT's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures.
<b>Accounting practices</b>	We have evaluated the appropriateness of Scottish Futures Trust's accounting policies, accounting estimates and financial statement disclosures. We have no issues to report.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed in the final version of the accounts.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We have not identified any cases of money laundering or fraud at Scottish Futures Trust Ltd.
<b>Other information</b>	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We are satisfied that the other information published with the audited statements is materially consistent.

## Other key elements of the financial statements (2)









Issue	Commentary
<b>Governance statement</b>	We are required to report on whether the information given in the Governance Statement is consistent with the financial statements and prepared in accordance with the requirements of the Financial Reporting Manual (FReM). No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.
<b>Matters on which we report by exception</b>	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 part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.
<b>Opinion on other aspects of the annual report and accounts</b>	We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been properly prepared in accordance with the requirements of the Financial Reporting Manual (FReM), and directions thereunder. We are satisfied the auditable parts of the Remuneration and Staff Report are in accordance with the requirements of the FReM, and directions thereunder.
<b>Regularity</b>	The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance Accountability (Scotland) Act 2000. In our opinion in all material aspects 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.
<b>Written representations</b>	A letter of representation has been requested from Scottish Futures Trust Ltd as required by auditing standards. This can be found as a separate item to this report. No additional representations have been sought from management.

## Other key elements of the financial statements (3)





Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2022). The Financial Reporting Board recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Company meets this criteria, and so we have applied the continued provision of service approach.</p> <p>In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management’s (senior officer’s) assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• management’s (senior officer’s) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>
Other returns to Audit Scotland	<p>In accordance with the Audit Scotland Planning Guidance, as appointed auditors we have prepared and submitted Fraud Returns and have contributed to shared intelligence for sector meetings and Technical Guidance Notes. There is nothing we need to bring to your attention in this respect.</p>

## Other findings – Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Dynamics	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	All significant risks
Cascade	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	Valuation of the net pension liability/asset

### Assessment

-  **Red** - Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  **Amber** - Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  **Green** - IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  **Grey** - Not in scope for testing



**Wider scope conclusions**

## Wider scope conclusions

This section of our report documents our conclusions from audit work on the wider scope areas set out in the Code. We take a risk-based audit approach to wider scope work. Within our audit plan we identified one significant wider scope risk in relation to financial sustainability and a significant risk in relation to use of resources to improve outcomes.

As part of our ongoing audit planning audit work during the year we have not identified any additional wider scope audit risks.

Wider Scope Area	Our risk considerations and focus	Risk Identified	Wider Scope Conclusion
Financial Management	The arrangements in place at Scottish Futures Trust to ensure sound financial management, accountability and the arrangements to prevent and detect fraud, error and other irregularities	No	Scottish Futures Trust Limited operated within its 2023/24 revenue budget, with appropriate budget processes and financial controls in place. Standards of conduct, along with measures for preventing and detecting fraud and error, were also deemed appropriate.
Financial Sustainability	The projected financial position of Scottish Futures Trust in the medium to longer term and the relevance and appropriateness of assumptions applied to financial plans that will allow the organisation to effectively deliver services in the future	No	There are currently no formal medium to longer term financial plans in place. Our prior year audit recommendation in relation to financial sustainability remains open.
Use of Resources to Improve Outcomes	How Scottish Futures Trust demonstrates economy, efficiency and effectiveness through its use of financial and other resources	No	Scottish Futures Trust ensures effective resource deployment to enhance strategic outcomes, address service user needs, and achieve continuous improvements while considering equalities. Compliance with best value duties is demonstrated through its Annual Review of Performance.
Vision, Leadership and Governance	The effectiveness of Scottish Futures Trust's governance arrangements and the arrangements in place to deliver the vision, strategy and priorities set by the organisation.	No	Scottish Futures Trust has a clear vision and strategic objectives have been established along with underpinning actions to implement this vision. Effective governance arrangements are in place.

<b>G</b>	Appropriate arrangements are in place, minor improvement recommendations made
<b>A</b>	Appropriate arrangements are in place, improvement recommendations made
<b>R</b>	Significant risk identified

# Wider scope audit (1)

This section of our report sets out our conclusions from our audit work on the wider scope audit dimensions. We take a risk-based audit approach to wider scope. Within our audit plan we identified one wider scope risk in relation to financial sustainability.

As part of our ongoing audit planning audit work during the year we have not identified any additional wider scope audit risks.

Wider scope area	Plan risk	Wider scope audit response and findings	Conclusion																												
<b>Financial Management</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	No significant risks identified.	<b><u>2023/24 Financial Performance</u></b>  The main financial objective for Scottish Futures Trust is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. Scottish Futures Trust Limited has reported an outturn of £10.992 million against its overall fiscal budget of £11.694 million for 2023/24, resulting in an underspend of £0.702 million. The financial performance against fiscal resources is shown in the table below. <table border="1" data-bbox="577 850 1666 1377"> <thead> <tr> <th></th> <th>Budget £m</th> <th>Outturn £m</th> <th>Over / (Under) spend £m</th> </tr> </thead> <tbody> <tr> <td>Resource Budget</td> <td>8.604</td> <td>8.044</td> <td>(0.560)</td> </tr> <tr> <td>Ring fenced resource – expected credit losses</td> <td>0</td> <td>(0.002)</td> <td>(0.002)</td> </tr> <tr> <td>Non cash costs including depreciation</td> <td>0.090</td> <td>0.090</td> <td>0</td> </tr> <tr> <td>Total</td> <td>8.694</td> <td>8.132</td> <td>(0.562)</td> </tr> <tr> <td>Annually managed expenditure</td> <td>3.000</td> <td>2.860</td> <td>(0.140)</td> </tr> <tr> <td>Total Outturn</td> <td>11.694</td> <td>10.992</td> <td>(0.702)</td> </tr> </tbody> </table>		Budget £m	Outturn £m	Over / (Under) spend £m	Resource Budget	8.604	8.044	(0.560)	Ring fenced resource – expected credit losses	0	(0.002)	(0.002)	Non cash costs including depreciation	0.090	0.090	0	Total	8.694	8.132	(0.562)	Annually managed expenditure	3.000	2.860	(0.140)	Total Outturn	11.694	10.992	(0.702)	<b>Scottish Futures Trust Limited operates within its allocated revenue budget in 2023/24.</b>
	Budget £m	Outturn £m	Over / (Under) spend £m																												
Resource Budget	8.604	8.044	(0.560)																												
Ring fenced resource – expected credit losses	0	(0.002)	(0.002)																												
Non cash costs including depreciation	0.090	0.090	0																												
Total	8.694	8.132	(0.562)																												
Annually managed expenditure	3.000	2.860	(0.140)																												
Total Outturn	11.694	10.992	(0.702)																												

Source: Scottish Futures Trust 2023/24 Annual Report and Accounts

## Wider scope audit (2)

Wider scope area	Plan risk	Wider scope audit response and findings	Conclusion
Financial Management (continued)		<p>The financial report highlights a net underspend due to various factors; a £0.04m underspend on IAS 19 service costs, a £0.13m overspend on defined benefit pension finance costs, a £0.17m reduction from spending controls by the Scottish Government, a £0.28m underspend on corporation tax, a £0.31m underspend due to gains on equity and sub-debt investments, and a £0.05m underspend on operating costs.</p> <p><b><u>2024/25 Budget</u></b></p> <p>We reviewed Scottish Futures Trust’s budgetary processes and budget monitoring arrangements for 2023/24. The 2023/24 budget was scrutinised and approved by the Board in March 2024.</p> <p>Scottish Future Trust’s 2024/25 operating budget has been set at £9.6 million, reflecting £1.5 million of third party income and £8.157 million of Scottish Government grants (£8.354 million 2023/24). SFT’s core budget was reduced by £200,000 by the Scottish Government as a result of the Governments overall prioritisation to set a balanced budget in a challenging financial climate.</p> <p>We observed that senior management and members receive regular and accurate financial information on Scottish Futures Trust’s financial position. We conclude that appropriate budget setting and monitoring arrangements are in place.</p> <p><b><u>Financial control arrangements</u></b></p> <p>From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any internal control weaknesses which could affect Scottish Future Trust’s ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.</p>	<p><b>Budget processes for the 2024/25 financial year were appropriate.</b></p>

## Wider scope audit (3)

Wider scope area	Plan risk	Wider scope audit response and findings	Conclusion
Financial Management (continued)		<p><b><u>Financial control arrangements (continued)</u></b></p> <p>Scottish Futures Trust’s internal audit function is carried out by RSM. RSM have completed their 2023/24 audit work and presented their Annual Audit Report to the June 2024 Group Audit Committee. The report concluded that “The organisation has an adequate and effective framework for risk management, governance and internal control.”</p> <p>Internal audit performed a review of key financial controls and a review of governance for 2023/24 financial year, both of which received a substantial assurance opinion. A review of procurement was also undertaken which received a reasonable assurance rating however no recommendations made were high priority findings.</p> <p>Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery, and corruption. We concluded that Scottish Futures Trust has appropriate arrangements for the prevention and detection of fraud, error, and irregularities.</p> <p>We also reviewed arrangements to maintain standards of conduct, including the code of conduct and register of interests. We concluded that Scottish Futures Trust has established procedures for preventing and detecting any breaches of these standards.</p>	<p>There are appropriate financial control arrangements in place. Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate.</p>

# Wider scope audit (4)

Wider scope area	Plan risk	Wider scope audit response and findings	Conclusion
<p><b>Financial Sustainability</b></p> <p>Financial sustainability looks forward to the medium to 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.</p>	<p>No significant risks identified.</p>	<p>Public bodies continue to operate in an increasingly complex and challenging environment, where funding is reducing relative to rising demand and there is less certainty about budgets in the short to medium term. Scottish Futures Trust is facing risks and challenges to its financial sustainability related to funding constraints relative to demand, and from its ability to effectively forward plan due to uncertainty and the timing of government funding streams.</p> <p>Due to the short term nature of the funding that Scottish Futures Trust are advised of from the Scottish Government (which is based on agreed programmes), which in turn means that Scottish Futures Trust cannot commit to medium or longer term funding. Over the years there has been uncertainty and changes in the expected grant-in aid funding. These challenges are included in the risk register highlighting the potential for reduced funding and its impact. Management and Board members review this position throughout the year.</p> <p>SFT have set a balanced budget for 2024/25 with anticipated income of £9.6m split between £8.157m Scottish Government grant funding and £1.5m third party income. Grant funding expected to be received by the Scottish Government in 2024/25 is slightly reduced compared to the prior year and has been reducing year on year as per the table below.</p>	

2022/23 £m	2023/24 £m	2024/25 £m
8.485	8.354	8.157

## Wider scope audit (5)

Wider scope area	Plan risk	Wider scope audit response and findings	Conclusion
Financial Sustainability (continued)		<p>We highlighted within our prior year annual audit report that with a challenging financial climate and uncertain economic future, there is a risk that funding for bodies such as SFT begin to reduce in future years as the government prioritises other areas of public spend. It is therefore more important now than ever that SFT look to implement and consider medium term financial planning. We recommended that <i>“SFT seeks to embed elements of these uncertainties within continuous financial planning and reviews including risk and sensitivity analyses over the medium to longer term to assess and mitigate against the impact of any future risks on delivery of the financial position before they crystallise.”</i></p> <p>Currently there are no formal medium term financial plans in place. The unique nature of SFT means that SFT's core and programme funding are confirmed on an annual cycle. Management is engaging with Scottish Government on Corporate Planning with a 5-year look ahead and with the Sponsor Division and Programme Funders on the short to medium term resources required for sustainability however, there are no formal medium term financial plans in place.</p> <p>Our prior year recommendation remains open and it remains crucial that management incorporates medium term financial planning into their financial planning processes. By undertaking this work, SFT can proactively assess and mitigate potential impacts on its future financial position. This will ensure that any future risks are identified and managed effectively before they materialise, thereby safeguarding the organisation's financial stability.</p>	<p><b>There are currently no formal medium to longer term financial plans in place. Our prior year audit recommendation in relation to financial sustainability remains open.</b></p>

## Wider scope audit (6)

Wider scope area	Plan risk	Wider scope audit response and findings	Conclusion
<p><b>Vision, Leadership and Governance</b></p> <p>Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.</p>	<p>No significant risks identified.</p>	<p><b><u>Corporate Plan</u></b></p> <p>Scottish Futures Trust has a clear vision as outlined within the Corporate Plan 2019-24. The plan sets out the purpose of Scottish Futures Trust as <i>"to improve the efficiency and effectiveness of infrastructure investment and use in Scotland by working collaboratively with public bodies and industry, leading to better value for money and providing the opportunity to maximise the investment in the fabric of Scotland and hence contribute to the Scottish Government's overarching purpose to increase inclusive economic growth"</i>. The strategy is supported by the annual business plan which outlines the actions for each year that will allow the outcomes of the strategy to be met. The annual business plan is updated each year and will reflect developments against the vision and outcomes in the strategy.</p> <p>During 2023/24, Scottish Futures Trust started work on the new Corporate Plan 2025-2030 which will be published in March 2025. A number of initiatives have been undertaken in 23/24 to prepare for the new corporate plan including;</p> <ul style="list-style-type: none"> <li>• each workstream performing an internal look-back on the 2019-24 Plan covering strategic changes, funding, resource support and stakeholders</li> <li>• corporate look back to include diversity and staff feedback trends</li> <li>• strategy day held in October 2023 focusing on different workstream areas</li> <li>• stakeholder engagement with Scottish Government's Infrastructure Investment Division and the Deputy First Minister</li> <li>• agreeing a proposed stakeholder engagement plan</li> </ul>	<p><b>Scottish Futures Trust has a clear vision and strategic objectives have been established along with underpinning actions to implement this vision.</b></p>



# Wider scope audit (7)

Wider scope area	Plan risk	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance (continued)		<p><b><u>Governance arrangements</u></b></p> <p>Scottish Futures Trust’s governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and support robust scrutiny and challenge of decision-making processes.</p> <p>Ensuring openness and transparency in an organisation's operations and decision-making processes is crucial for fostering public understanding and accountability. Transparency involves providing the public with clear, relevant, and timely information regarding the board's decisions and resource usage. The Scottish Futures Trust's website is user-friendly and organised, offering public access to board minutes and important documents, such as the most recent annual report and financial statements. We determined that the Board operates in an open and transparent way.</p> <p>In April 2024 a new chair of the board was appointed by Scottish ministers. Prior to the appointment of the new Chair, the Board received regular updates regarding the recruitment process. It is noted that two Board members are scheduled to leave at the end of March 2025. In anticipation of these departures, the Board has initiated succession planning, identifying potential gaps in skills and knowledge that need to be addressed.</p> <p>Additionally, a new Non- Executive Director for the hub companies and their subsidiaries was appointed effective from 1 March 2024. To support this transition, training and ongoing mentoring have been established for the new Senior Associate Director.</p>	Effective governance arrangements are in place.

# Wider scope audit (8)

Wider scope area	Plan risk	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance (continued)		<p><u>Staff Survey</u></p> <p>An Employee Opinion Survey was conducted in January and February 2024, achieving a record-high completion rate of 96%. The results of the survey were compared against the business and professional services benchmark which results in line or above the benchmark. The leadership team reviewed the results of the survey and collated an action plan in July 2024 which focuses on four key areas as a result of the findings from the staff survey. To ensure delivery of the action plan an engagement group has been set up which will be chaired by the Head of HR who will report back to the leadership team. The group is due to meet on a monthly basis starting from August 2024. Our review of the results and action plan did not identify any significant issues.</p>	Effective governance arrangements are in place.

# Wider scope audit (9)

Wider scope area	Plan risk	Wider scope audit response and findings	Conclusion
<p><b>Use of resources to improve outcomes</b></p> <p>Public sector 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.</p>	<p>No significant risks identified.</p>	<p><a href="#">Ministerial guidance to Accountable Officers</a> for public bodies and the <a href="#">Scottish Public Finance Manual (SPFM)</a> sets out the Accountable Officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.</p> <p>Scottish Futures Trust measures its achievement of Best Value through their Annual Review of Outcomes which is published on the SFT outcomes website as well as through a workstream activity end of year report. The 2023-24 workstream activity end of year report was considered at the May 2024 board meeting, the 2023/24 outcomes website was not updated at the time of drafting this report. The review covers a wide variety of areas that align with the SPFM guidance and key performance reporting information.</p> <p>The overall performance of Scottish Futures Trust is assessed by the Board. Scottish Futures Trust continued to monitor key performance indicators throughout the year with performance reported to the Board at each board meeting. Financial performance is also assessed at the Board through financial performance update reports.</p>	<p><b>Scottish Futures Trust has effective and appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in its services.</b></p>

## Wider scope audit (10)

Wider scope area	Plan risk	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)		<p>Scottish Futures Trust does not perform a separate best value assessment however SFT do undertake a systematic approach to self evaluation and continuous improvement through the entity's work streams and governance processes. Examples of which include;</p> <ul style="list-style-type: none"> <li>• <b>Vision and Leadership:</b> Corporate Plan, Business Plan, Board and Leadership Reporting on activity and risk.</li> <li>• <b>Effective Partnership:</b> collaborative value, co-funding with other organisations, all business plan activities having collaborative partner organisations</li> <li>• <b>Governance &amp; Accountability:</b> Corporate Plan, Business Plan, public reporting, budget management, Scottish Government six monthly review, outcomes reporting and stakeholder engagement as part of business and corporate planning.</li> <li>• <b>Use of resources evidence:</b> budget planning and management, IT improvement (cloud transition), procurement policy, training and audit, staff performance appraisals process, risk management and internal controls / audit processes</li> <li>• <b>Performance Management:</b> monthly Leadership Team activity tracking, Board reporting, staff appraisal and development</li> <li>• <b>Sustainability:</b> sustainability report, financial sustainability through budget monitoring and overall contributions to national outcomes</li> <li>• <b>Equality:</b> legislative compliance, equal pay reporting and equality, diversity and inclusion policy.</li> </ul>	<p><b>Scottish Futures Trust complies with best value duties through its Annual Review of Performance.</b></p>

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## Best Value

The Scottish Public Finance Manual explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. There is ministerial guidance to ensure that arrangements are in place to secure Best Value in public services.

There are seven Best Value characteristics set out within the Manual and they were reviewed as part of our risk assessment. Audit Scotland require us as auditors to undertake work on the Fairness and Equality characteristic at least once during our audit appointment, we have not undertaken that work during 2023/24.

Best Value work under the new Code of Audit Practice is fully integrated within the annual audit work performed by appointed auditors and their teams. As part of our integrated wider-scope annual audit work, we as appointed auditors use a risk based approach to assess and report whether the company has made proper arrangements for securing Best Value. We have not identified any significant risks in relation to the arrangements in place to secure best value from our work performed over wider scope areas as outlined in this report.

# Appendices

# 1. Audit Adjustments (1)

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

Detail	Statement of Changes in Net Expenditure £	Statement of Financial Position £	Impact on total net expenditure £
<b>Group Statements – Tax</b>			
Notification of interest of late payments was provided to SFT by HMRC in relation to 2020 and 2021 tax returns resulting in an additional payment required of £31,120. As the notification of the interest payments was provided to SFT after the year end, management has chosen to amend the financial statements to reflect this as an adjusting post balance sheet event. This adjustment was highlighted by SFT management to the audit team.	DR Operating Expenditure £31,121 CR Taxation £7,781	CR Trade and other payables £31,121 DR Current tax liabilities £7,781	DR 23,340
<b>Overall impact (for this page only)</b>	DR £23,340	CR £23,340	DR £23,340

## Impact of unadjusted misstatements

There are no unadjusted audit misstatements that are above our reporting level.

## Impact of unadjusted misstatements in the prior year

There were no unadjusted misstatements that are above our reporting level within the prior year. All audit misstatements identified in the prior year were amended for in the prior year final accounts and reflected in the comparator figures within the current year draft accounts.

# 1. Audit Adjustments (2)

## Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This is not a complete list, as this does not include minor changes requested by the audit team, including typos and formatting requests.

This list of misclassification and disclosure changes reflects presentational adjustments to the financial statements which have no impact on Scottish Futures Trust and the Group's reported financial position.

Disclosure	Auditor recommendations	Adjusted?
Audit Fees	Audit fee was disclosed as £40,913 however should be disclosed as £41,220 as per the external audit plan.	Yes
Staff Report- Gender Balance Table	Comparators for 2022/23 financial year were missing from draft disclosure, management has now included this within the final disclosure.	Yes
Post Balance Sheet Events	Disclosure note for post balance sheet events was missing from the draft accounts, management has now included this note within the final accounts.	Yes
Various	A number of other minor disclosure and presentational amendments were identified and corrected by management.	Yes
Financial Instruments	The amortised cost of the working capital assets in note 18 should be shown as a separate line within the note as they are not held at fair value. This will show a element of £120,588 for 22/23 & a current year element of £62,688 for 23/24.  This also then impacts the fair value of financial assets and liabilities disclosure, for the 23/24 with the fair value being £19,510,188 & the historic value shown as £15,440,466.	Yes



## **2. Action plan and recommendations – Financial statements audit**

We have not identified any new recommendations for Scottish Futures Trust Ltd and the group during our audit of the financial statements for the year ended 31 March 2024.

# 3. Action plan and recommendations – Wider scope and Best Value

We have not identified any new recommendations for Scottish Futures Trust Ltd and the group during our audit of wider scope and best value for the year ended 31 March 2024.

# 4. Follow up of prior year recommendations (1)

We identified the following recommendations in the audit of Scottish Futures Trust's 2022/23 financial statements, which resulted in 2 recommendations being reported in our 2022/23 Audit Findings Report. We have performed additional work in year to obtain assurance whether the recommendation from prior year has been closed and resolved in the current year or whether the issue still exists and the recommendation remains open and/or in progress. 1 out of 2 recommendations have been cleared with 1 in progress.

## Recommendations from financial statements audit

Assessment	Issue and risk	Management update on actions taken to address the issue	Auditor Conclusion
Amber	<p><b>Self Authorisation of Journals</b></p> <p>Journals can be authorised and approved by the same individual. Due to the size of the finance team, finance team members often post and approve their own journals, this creates a risk that inappropriate journals could be posted without being detected through review. The organisation does have other mitigating controls in place to reduce this risk including review of monthly financial outturns against budget. We have raised a control recommendation in line with best practice guidance to further mitigate the risk raised.</p> <p><b>Recommendation</b></p> <p>Journals should be subject to review and approval by a separate individual from the individual initiating the journal.</p>	<p>From Feb 2024 all general journals are now approved by a separate individual from the individual initiating the journal. After discussions with our auditors it was agreed that payment journals did not require separate approval as other controls such as dual authorisation of payments and monthly bank reconciliation reviews are in place.</p>	<p>Management have now implemented controls in place to ensure all journals are subject to two stage review before being posted to the general ledger. As control did not operate until February 2024 there was still a control weakness that operated for the majority of the 2023/24 financial year. We therefore assess this recommendation as Amber- in progress as the recommendation has not operated for a full financial year and we will review journals postings in 2024/25 to ensure control is in operation for the full financial year.</p>

# 4. Follow up of prior year recommendations (2)

## Recommendations from financial statements audit (continued)

Assessment	Issue and risk	Management update on actions taken to address the issue	Auditor Conclusion
Green	<p><b>Closure of GL Period in a timely manner</b></p> <p>After the end of a reporting period (usually monthly) the general ledger should be closed for that period to mitigate the risk of journals being back posted to an incorrect period. We identified through our walkthrough that journals could be back posted to previous periods due to the fact that the period had not been closed on the ledger in a timely manner.</p> <p><b>Recommendation</b></p> <p>Controls should be put in place to ensure general ledger periods are closed on a timely basis after ledger adjustments have been finalised to mitigate the risk of back posting journals into incorrect periods.</p>	<p>General ledger time periods are closed off timeously. The year end has been closed and general ledger set up has been set to allow postings for the current year only.</p>	<p>We are satisfied that from our review of closure of general ledger periods that this recommendation has been closed.</p>

# 4. Follow up of prior year recommendations (3)

## Recommendations from wider scope and best value audit

Assessment	Issue and risk	Management update on actions taken to address the issue	Auditor Conclusion
Amber	<p><b>Financial Sustainability</b></p> <p>With a challenging financial climate and uncertain economic future, there is a risk that funding for bodies such as SFT begin to reduce in future years as the government prioritises other areas of public spend. It is therefore more important now than ever that SFT look to implement and consider medium term financial planning.</p> <p><b>Recommendation</b></p> <p>It is important that SFT seeks to embed elements of these uncertainties within continuous financial planning and reviews including risk and sensitivity analyses over the medium to longer term to assess and mitigate against the impact of any future risks on delivery of the financial position before they crystallise.</p>	<p>Unless there is a change to Government budgeting processes, SFT's core and programme funding will only ever be confirmed on an annual cycle. Management is actively engaged with Scottish Government on Corporate Planning with a 5-year look ahead and with the Sponsor Division and Programme Funders on the short to medium term resources required for sustainability. This funding level and associated risks are well understood and recognised by all funding parties.</p>	<p>Currently there are no formal medium term financial plans in place. Our prior year recommendation remains open and it remains crucial that management incorporates medium term financial planning into their financial planning processes. By undertaking this work, SFT can proactively assess and mitigate potential impacts on its future financial position. This will ensure that any future risks are identified and managed effectively before they materialise, thereby safeguarding the organisation's financial stability.</p>

# 5. Audit fees, ethics and independence (1)

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and Scottish Futures Trust and the Group that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place, note that there are no non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

# 5. Audit fees, ethics and independence (2)

## Fees and non-audit services

The tables below set out the total fees for audit and other services charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Scottish Futures Trust Ltd and the Group. The table summarises all non-audit services which were identified.

<b>External Audit Fee</b>		<b>Annual Audit Report £</b>
<b>Service</b>	<b>Audit Plan £</b>	
External Auditor Remuneration	£40,780	£40,780
Pooled Costs	£440	£440
<b>2023/24 Proposed Audit Fee</b>	<b>£41,220</b>	
<b>2023/24 Final Audit Fee</b>		<b>£41,220</b>

## Fees for other services

<b>Service</b>	<b>Fees £</b>
We confirm that for 2023/24 we did not receive any fees for non-audit services	Nil

The fees reconcile to the financial statements.

- Fees per financial statements	£41,220
- Total fees per table above	£41,220

The Audit fee presented in the Audit Plan is the final fee. The Audit Plan was approved by the Group Audit Committee on, 29 January 2024, and the Annual Audit Report was presented to the 19 August 2024 Group Audit Committee.

# 5. Audit fees, ethics and independence (3)

## Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work ([joanne.e.brown@uk.gt.com](mailto:joanne.e.brown@uk.gt.com)). Alternatively, should you wish to raise your concerns further please contact Mark Stocks, Partner and Head of Public Sector Assurance, 103 Colmore Row, Birmingham, B3 3AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to John Gilchrist, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2023](#) ([grantthornton.co.uk](http://grantthornton.co.uk)).



# 6. Communication of audit matters

International Standard on Auditing ISA (UK) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance. These are set out in the table below.

Our communication plan	Audit Plan	Annual Report (our ISA 260 Report)
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of Scottish Futures Trust's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter.		•



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