

MINUTES

Meeting of: SFT Group Audit Committee

Date & Time: Monday 19 August 2024, 9.30am

Place: Cullen, Thistle House, 91 Haymarket Terrace, Edinburgh

Present: Graham Watson (GW) (Chairman)
Pauline Mills (PM)
Bill Matthews (BM)
Stella Matko (SM)
Nick Rowan (NR)

Apologies: Stephen Slessor (SS)

In attendance: Peter Reekie (PR)
Caroline Whyteside (CW)
Angela Pieri, Grant Thornton (AP)
Lorraine Macphail, Grant Thornton (LM) (part meeting)
Ruth Hann (RH) (part meeting)
Asam Hussain(AH), RSM (part meeting)
Matthew Stacey (MS), RSM (part meeting)
Liz Petrie (LP) (minutes)

FORMALITIES

1 APOLOGIES & AGENDA

Apologies were noted from SS.

2 DECLARATION OF INTERESTS

No new interests were declared.

3 MINUTES OF PREVIOUS MEETING

The minutes of the meeting of Monday 24 June 2024 were approved as a correct record.

4 ACTION TRACKER

The action log was reviewed. It was noted that all items are complete or scheduled for review at future meetings. CW advised that due to the timing of meetings with stakeholders on the next corporate plan stakeholder views have not been included within the narrative in the draft SFT Annual Report for the year ended 31 March 2024. CW confirmed that this would remain on the tracker for inclusion in future years' reporting.

DECISION

5 ANNUAL REPORTS AND FINANCIAL STATEMENTS

Introduction

The Committee noted the introductory report listing the papers to be considered under this item.

CW advised that the external audit for both companies had gone well this year with the process much smoother than the previous year.

CW noted the main areas of judgement for the SFT Investments accounts as being those considered by the Committee at its last meeting in June, namely the discount rate to be applied to calculate the fair value of investments, and if it should vary across the portfolio, and the gain or loss on the fair value of subordinated debt and equity. CW further advised that external tax advice had been sought.

SFT Investments Ltd: Draft audit findings report

The Committee noted Grant Thornton's summary of key audit matters for SFT Investments Ltd. LM talked through the summary highlighting areas where challenges had been made to management in the course of the audit and described how comfort had been gained in particular in respect of: the discount rate of 8.25%; the use of the same discount rate for equity and subdebt; the use of the same discount rate across all projects including Wick and Alford where the current forecast is that some amounts will not be repaid by the end of the project period; and the variance in fair value of equity in five of the sub-hub companies due to the removal of forecast dividends. RH confirmed that the structure of these five sub-hub companies is under review.

LM further described the approach taken to the going concern analysis. The Committee acknowledged that SFT Investments is not financially dependent on SFT but relies on SFT not increasing its management charge to the extent that SFT Investments is put into financial difficulties. The Committee noted and agreed the proposal that a formal management fee agreement be put in place to limit any increase in the management fee year on year. The Committee noted the draft agreement and agreed to recommend its approval to the Boards.

LM highlighted that due to the timing of the conclusion of the previous year's audit, actions taken to address issues raised on segregation of duties and bank reconciliation processes were only put into practice during the year. LM also noted that related parties declarations were not in place at the beginning of the year but had been actioned during the year.

The Committee was advised since drafting the Accounts for the Committee it has agreed that the 22/23 audit fee should be split out within the financial statements for disclosure of the fee in both years.

SFT Investments Ltd: Cover report for Annual Report and Financial Statements

The Committee noted the report.

SFT Investments Ltd: Draft Annual Report and Financial Statements

The Committee agreed the assumptions underpinning the accounts and, subject to minor amendments, agreed to recommend approval of the Annual Report and Financial Statements to the SFT Investments Board. It was requested that the Board be circulated a copy of the Report with changes tracked so that amendments made following the Committee meeting are clear.

SFT Investments Ltd: Letter of representation

The Committee noted the draft letter of representation with management comments. CW confirmed that there are no changes since the previous year. The Committee agreed to recommend approval of the letter of representation to the SFT Investments Board.

RH and LM left the meeting.

SFT Ltd: Audit findings report

The Committee noted the draft audit findings report which AP confirmed would be finalised when the Annual Report is signed off. AP advised that the Audit had gone well with management providing comprehensive and timely information.

AP highlighted three key audit matters/risks: management override of controls; valuation of the pension fund net liability; and the valuation of investments. AP advised that similarly to SFT Investments, actions to address the control weaknesses were put in place during the year and these points should not feature in future years' audit findings.

AP described the checks and procedures that had been carried out to confirm the reasonableness of the actuarial assumptions on the pension fund valuation. The Committee noted that within the accounts there is a net pension asset position of nil which is a significant movement from the previous year. AP explained how the figure of nil had been derived.

AP confirmed that no significant issues or new recommendations have arisen in the wider scope audit.

AP confirmed that all risks assessed remain as at the audit planning stage and that an unmodified opinion is given.

AP thanked the SFT team and advised of a recent change in the Grant Thornton team following the resignation of their audit senior manager.

SFT Ltd: Cover report for SFT Company and Group Annual Report and Financial Statements

The Committee noted the report.

SFT Ltd: Draft Annual Report and Financial Statements

The Committee agreed the assumptions underpinning the accounts and, subject to minor amendments, agreed to recommend approval of the Annual Report and Financial Statements to the SFT Board. It was requested that the Board be circulated a copy of the Report with changes tracked so that amendments made following the Committee meeting are clear.

SFT Ltd: Draft Letter of Representation

The Committee noted the draft letter of representation with management comments. CW confirmed that there are no changes since the previous year. The Committee agreed to recommend approval of the letter of representation to the SFT Board.

MONITORING

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INTERNAL AUDIT

AH and MS joined the meeting.

SFT Outcomes

The Committee noted the report on SFT Outcomes describing the assurance approach and the outcome of the 2023/24 assurance process together with RSM's assurance report.

AH noted that it is the second year that RSM has undertaken this work and advised that SFT has further strengthened its process in the year. He confirmed that the opinion of substantial assurance has been given.

AH outlined the single area highlighted for improvement to reduce the risk of transposition in the outcomes reporting workbook and the Committee noted that this will be addressed in advance of the next reporting cycle.

The Committee was advised that the timelines for the outcomes reporting exercise had been brought forward in the year to meet timescales for the Company's Five Year Review publication and fewer case studies than usual were available at the time of the audit. It was noted that the timetable would be reviewed for future years. The Committee was advised that [REDACTED] will temporarily be taking over from [REDACTED] co-ordinate outcomes reporting in the coming year.

Internal Audit update

The Committee noted the report providing an update on the internal audit plan for 2024/25 and noted the internal audit report on business continuity, being the first audit to be undertaken in the financial year. AH confirmed that the review had been positive with an opinion of substantial assurance issued. The Committee further noted and discussed the three areas for improvement identified including maintaining a schedule of regular stress/scenario testing.

The Committee noted the internal audit report on procurement which was undertaken as part of the 2023/24 audit plan and previously circulated to Committee members for review outwith the meeting cycle.

AH and MS left the meeting.

7

REVIEW OF COMMITTEE TERMS OF REFERENCE

The Committee noted its Terms of Reference. CW highlighted the recommended change to the Terms to remove a residual reference to the Management Statement and Financial Memorandum which had been replaced by the SFT Framework Document.

The Committee agreed the recommended change to the Terms of Reference and noted that the revised Terms would be taken to the SFT Board for review later in the year.

8 CORPORATE RISK REGISTER

The Committee noted and discussed the corporate risk register.

CW highlighted the inclusion of the risk appetite themes and statements in the register and advised that there had been no adjustments in the risk ratings since the Committee reviewed the register in June 2024 although some new comments had been incorporated to highlight different elements to ongoing risks and issues.

The Committee discussed the risk of cuts to core and programme funding, noting in particular additional uncertainty on programme funding given that some portfolios have indicated that the 'expected' funding outlined in the annex to the grant letter will be subject to further assessment of the justification for funding later in the year. The Committee further noted that given the run-rate of expenditure, the core funding allocated to SFT in the grant letter has been expended, and the organisation is now reliant on funding expected to be transferred at autumn and spring budget reviews.

The Committee also discussed the risk of changes in the public sector landscape including the recent announcement of the creation of a dedicated infrastructure investment team by Scottish Enterprise. PR described the regular engagement with Scottish Government sponsors to understand the landscape and align remits.

**9 NOTING
PUBLIC SECTOR REFORM ACT DISCLOSURE**

The Committee noted the Public Sector Reform Act Disclosure report and noted that the report would be published on the SFT website.

10 SUSTAINABILITY REPORT

The Committee noted the Sustainability Report and noted that the report would be published on the SFT website. The Committee was advised that the Company completes the sustainability report on a voluntary basis as reporting is mandatory only for larger organisations. CW advised that the data available for reporting is more limited than in previous years as there is no sub-metering in the new office building. CW confirmed that consideration is being given to how reporting can be enhanced in future years.

11 AOB

There was no other business.

The meeting ended at 11.05am.