

MINUTES

Meeting of: SFT Group Audit Committee

Date & Time: Monday 27 January 2025, 12 noon

Place: Shared boardroom, Thistle House, 91 Haymarket Terrace, Edinburgh

Present: Stephen Slessor (SS)
Pauline Mills (PM)
Stella Matko (SM)
Nick Rowan (NR)

Apologies: Graham Watson (GW), Chair

In attendance: Peter Reekie (PR)
Caroline Whyteside (CW)
Angela Pieri (AP), Grant Thornton (part meeting, items 1-5)
Cathy Smith (CS), Grant Thornton (part meeting, items 1-5)
Lorraine Macphail (LM), Grant Thornton (part meeting, items 1-5)
Kerri Ross (KM), Grant Thornton (part meeting, items 1-5)
Asam Hussain(AH), RSM (part meeting) (part meeting, items 6-7)
Matthew Stacey (MS), RSM (part meeting) (part meeting, items 6-7)
Tony Rose (TR) (part meeting, item 9)
Liz Petrie (LP) (minutes)

FORMALITIES

1 APOLOGIES & AGENDA

Apologies were noted from the Chair, GW. In GW's absence, SS took the Chair. SS confirmed that GW had provided comments on the papers which he would feed in to discussions through the meeting.

2 DECLARATION OF INTERESTS

No new interests were declared.

3 MINUTES OF PREVIOUS MEETINGS

The minutes of the meeting of 19 August 2024 were approved as a correct record.

4 ACTION TRACKER

The action log was reviewed with completed and ongoing actions noted.

DECISION

5 EXTERNAL AUDIT PLAN

The Committee noted the report on the 2024-25 external audit plans for SFT and SFT Investments Ltd.

SFT External Audit:

CW outlined the content of the report highlighting the inclusion of the 'Informing the Audit Risk Assessment document, where the Committee is being asked to confirm that it is content with the management responses drafted. CW further highlighted that the timetable for completion of the external audit does not currently meet the Company's board reporting deadlines and that discussions are ongoing with Grant Thornton on this.

The Committee noted the SFT Audit Plan for 2024/25. AP thanked CW for engagement on the Audit Plan to date. She referred to the audit timeline and highlighted the additional work required to comply with revised auditing standards. AP also outlined that from this year onwards the final audit will only be signed off after the Pension Fund has audited accounts, which is not expected until the end of September. In previous years the pension calculation had been signed off on the basis of an interim letter. CS advised that the vast majority of the audit could be completed in advance of the scheduled Group Audit Committee in August. The Committee requested that the Executive continue discussions with Grant Thornton to agree a timetable to meet the Company's reporting deadlines.

Revised audit timetable to meet the Company's reporting deadlines to be agreed.

CS highlighted key elements of the SFT audit plan. CS confirmed that materiality for planning purposes has been set at 2.5%, an increase from 2% from the previous year, with performance materiality remaining at 75% of planning materiality. CS further highlighted the revision to ISA600 for the audit of Group Financial Statements. The Committee was advised that the significant audit risks and wider scope risks remain consistent with the previous year. CS confirmed the audit fee as £43,080 and advised that an updated version of the audit plan will be issued to include this.

The Committee noted the 'Informing the Audit Risk Assessment' document and confirmed agreement with the management responses.

SFT Investments External Audit:

The Committee noted the SFT Investments Audit Plan for 2024/25. LM confirmed that there were no substantive changes to the Plan from the previous year. She further confirmed that the timetable set will meet the Company's reporting deadlines and sign off of the SFT Investments accounts could take place in advance of the SFT accounts being finalised.

The Committee further noted the proposed audit fee of £60k and agreed to recommend the fee to the Board.

6 25/26 INTERNAL AUDIT PLAN

The Committee noted the report and the internal audit plan. AH outlined the four audit areas proposed for the coming year: payroll; expenses and hospitality; outcomes; and strategic planning. The Committee noted the rolling programme of audit areas spanning 2020/21 to 2027/28 and were content to agree the areas proposed for the coming year.

The Committee further noted and agreed the Internal Audit Charter as an integral part of the Internal Audit Plan.

7 INTERNAL AUDIT UPDATE

The Committee noted the report providing an update on the internal audits carried out in 2024/25 including the final internal audit reports on Sickness Absence and IT Security.

AH advised that the overall assurance level for the IT security audit was 'reasonable assurance'. He advised that the audit had identified that a range of well designed security controls are in place but that some areas for improvement had been identified in order to meet industry best practice. The Committee noted the management actions being undertaken to address the issues highlighted by the audit. CW confirmed that all actions are in hand and all 'medium' priority actions will be completed by end of February 2025. AH confirmed that the report and recommendations had been well received by the Company and there had been a strong dialogue with management. AH further noted that the assurance level was close to the top of the 'reasonable assurance' rating. The Committee noted that a full report on the completion of management's follow-up actions will be brought to the Committee meeting in June.

The Committee noted the Company's IT resourcing arrangements with a single IT manager supported by an external IT services provider and discussed the associated risks and mitigations.

AH further outlined the findings of the review of sickness absence where a rating of 'substantial assurance' had been given. He advised that the review had concluded that a framework, proportionate to the size of the workforce, is in place which allows the Company to manage sickness and absence. He highlighted that two areas had been identified to strengthen current sickness absence policy and its implementation.

8 24/25 OUTCOMES REPORTING PLAN

The Committee noted the report outlining the methodology and workplan proposed for outcomes reporting for the year 2024-25.

CW confirmed that the approach and timing is similar to the previous year and advised that the opportunity for improvement identified by the RSM assurance process for 2023-24 would be incorporated into this year's reporting.

The Committee agreed the methodology laid out in the report together with the proposed approach to assurance through RSM.

9 NEW IMPACT FRAMEWORK PROPOSAL

The Committee noted the report on the introduction of a new impact framework which will align with the outcomes set out in the new Corporate Plan 2025-30. TR described progress on the development of the framework since the update provided to the SFT Board in November 2024. He confirmed that it is the intention to run a shadow reporting process in the coming year prior to full implementation for the first year of the new Corporate Plan.

The Committee noted the development of the work to date and discussed the value and cost-benefit of the reporting. The Committee discussed and agreed the importance of the work in demonstrating the value and achievements of the organisation to Scottish Government as shareholder and funder as well as to external and internal stakeholders. It was noted that the new framework will cover outputs as well as outcomes and it is intended to consider how to streamline processes and reduce complexity during the shadow running phase this year. The Committee agreed the importance of reporting and supported the development of a pragmatic approach.

10 ADDITIONAL RELEASE OF RESERVES PROPOSAL

The Committee noted the report on the proposed phased release of accumulated reserves to augment the Company's annual budget position.

CW outlined the background to the composition and accumulation of SFT Investments Ltd reserves of £22.8m and confirmed that of this total the retained earnings of £2.7m is distributable.

CW described the options of an evenly phased release, which over 20 years would give an additional budget of £135,000 per annum, or a strategically phased release. The Committee noted the profile of forecast net income over the period to 2045/46 based on current models and how the phased release of retained earnings could be used to smooth the annual fluctuations in income to maintain the current level of investment income of £1.5 million per annum.

CW confirmed that annual approvals to release reserves would be sought from both the Group Audit Committee and the SFT Investments Ltd Board and that an approval to the principle of the release of reserves is currently being sought. The Committee noted that approval from Scottish Government will also be sought including to ensure that the Company can retain the additional income without impacting annual budget awards.

The Committee further noted the potential for the additional income to be profiled to smooth annual budget cost pressures outwith the Company's control such as rises in pension contributions.

The Committee approved in principle the strategic, phased release of distributable reserves noting the option to release an additional £25 to £50k per annum in the earlier years to lessen the back-ending of the release profile.

MONITORING

11 CORPORATE RISK REGISTER

The Committee reviewed the corporate risk register recording the key strategic and corporate risks facing the organisation.

CW confirmed that no new risks have been added to the register in the recent period and the Committee noted the top four 'red' risks including SFT's constrained resources which has moved from amber since the last review. The Committee noted the increased risk reflects the current level of vacancies in the Company. The Committee discussed the impacts of the increased number of vacancies and the challenges and opportunities in recruiting new staff.

12 PROJECT AND PROGRAMME GOVERNANCE

The Committee noted the report describing the governance arrangements and controls in place for the projects and programmes in which SFT has a role as well as the officerships held by staff members in their roles as SFT employees. CW recalled the Committee's request for a change in format to better highlight the Company's specific responsibilities in each area. The Committee welcomed the revised format of the report with an overview categorising the governance role undertaken within each of the work programmes and asked that this format be adopted for future reporting.

12 AOB

There was no further business.

The meeting ended at 1.20pm