

MINUTES

Meeting of:	SFT Group Audit Committee
Date & Time:	Monday 23 June 2025 12 noon to 1.30pm – scheduled 12 noon to 12.55pm- actual
Place:	Shared board room, Thistle House, 91 Haymarket Terrace, Edinburgh
Present:	Alistair Brown (AB) (Chair) Stella Matko (SM) Stephen Slessor (SS) Nick Rowan (NR)
Apologies:	Pauline Mills (PM)
In attendance:	Peter Reekie (PR) Caroline Whyteside (CW) Ruth Hann (RH) (part meeting) Asam Hussain(AH), RSM (part meeting) Matthew Stacey (MS), RSM (part meeting) Liz Petrie (LP) (minutes)

1 FORMALITIES

1 APOLOGIES & AGENDA

Apologies were noted from PM.

2 DECLARATION OF INTERESTS

No new interests were declared.

3 MINUTES OF PREVIOUS MEETINGS

The minutes of the meeting of Monday 27 January 2025 were approved as a correct record.

4 ACTION TRACKER

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

MONITORING

5 INTERNAL AUDIT 24/25 AUDIT OPINION AND FOLLOW-UP

The Committee noted the 2024/25 internal audit annual report including the audit opinion.

AH confirmed that the opinion given of, 'the organisation has an adequate and effective framework for risk management, governance and internal control', is the highest level of internal audit opinion. Of the four areas audited, three had been rated as providing 'substantial' assurance and one, on cyber security, rated as 'reasonable' assurance. AH confirmed that all follow-up actions from these audits had been agreed, implemented and evidenced.

The Committee discussed the cyber security findings. AH acknowledged that this is an area where risk is constantly moving and confirmed that third party access is one of the key areas of control that RSM considers.

PR, CW and RH left the meeting

In the absence of the Executive, the Chair invited RSM to provide further comment on the internal audits and relationship with the Company. MS described strong engagement with SFT staff who are responsive, well prepared for the audit processes and willing to offer constructive challenge. AH highlighted the timely implementation of all recommendations arising from the audits.

AH and MS left the meeting.

PR, CW and RH re-joined the meeting.

AB noted the strong audit opinion and positive engagement with the auditors and asked the Committee's thanks be extended to staff involved in the audits.

6 SFT INVESTMENTS ACCOUNTING JUDGMENTS

The Committee noted the report describing key accounting assumptions and a proposed update in the presentation of the SFT Investments financial statements.

Equity and Sub-debt Valuations

The Committee noted the report on the assessment of the value of SFTi hub DBFM equity and subordinated debt investments to determine the gain or loss on valuations to be recognised in the SFTi annual accounts to end March 2025. RH described the methodology used to determine the recommended discount rate including a review of market rates, an assessment of the economic outlook and an appraisal of DBFM asset performance. The Committee noted the recommendation that the discount rate of 8.25% as applied in the previous year be retained across the portfolio with the exception of two projects currently in distribution lock up. RH confirmed that the recommended higher discount rate of 8.5% reflects the higher risk of non-payment in these two projects.

The Committee noted that the treatment being proposed for the valuation of equity and subordinated debt is in accordance with the approved policies for the SFT Group.

The Committee agreed the recommendation that a loss on the fair value of subordinated debt of £77k and a gain on the fair value of equity of £78k are recognised in the 2025 SFTi annual accounts. It was confirmed that these are reported separately within the annual accounts.

The Committee acknowledged that the figures remain subject to external audit, noting that the auditors had been comfortable with the discount rate being at the higher end of the range in the previous year.

Working Capital Loans Expected Credit Loss

The Committee noted the report providing an analysis of the expected credit loss associated with the working capital loan from SFT Investments to hub West, the one remaining working capital loan issued to the hub Companies.

The Committee noted the approach to assessing the impairment provision for the loan and that a detailed analysis had been undertaken of company's current and future expected performance including a review of its business plan, pipeline and cashflows.

The Committee agreed the recommendation that no expected credit loss is recognised against the hub West working capital loan. The Committee noted that the above remains subject to external audit.

Change in Presentation of Accrued Debt Interest

The Committee noted the report outlining a proposed change in the accounting presentation of accrued subordinate debt interest within the SFTi accounts. RH advised that the adjustment is intended to improve the clarity of the Company's financial reporting. She confirmed that this is an accounting presentation change and would not change the overall net asset position. The Committee was advised that the proposed change remained subject to external audit but the auditors have been given advance notice of the proposed change.

The Committee noted and agreed the change as proposed, subject to external audit.

7 INTERNAL CONTROLS AND FINANCIAL PROCEDURES MANUAL

The Committee noted the Internal Controls and Financial Procedures Manual incorporating recommended updates.

CW summarised the principal updates to the Manual to reflect the new Corporate Plan, staffing changes, a new corporate overhead policy and a revised budget setting process. CW advised that an audit of the payroll and expenses process is being undertaken as the first internal audit for 2025/26.

The Committee approved the updated Internal Controls and Financial Procedures Manual.

8 CORPORATE RISK REGISTER

The Committee reviewed the corporate risk register including the risk themes and appetite statements. CW advised that the Leadership Team reviews the register monthly and highlighted the changes to the register since the Committee's last review in January 2025.

CW advised that of the 16 risks identified in the register, five are rated 'red'. She advised that the risk in relation to staff recruitment and retention had moved from 'amber' to 'red' in the period reflecting the significant number of ongoing recruitments. She noted that as the Company has been successful in recent recruitments it is expected that the risk may move back to 'amber' at the next review.

CW highlighted also the removal of the issue relating to the Scottish Hospitals Public Inquiry as the Company's involvement in the Inquiry has ended.

The Committee noted the risk appetites against each of the themes and that some have two definitions rather than a single description of appetite. SM recalled the workshop on risk where the Board and Executive had discussed the themes and appetites and confirmed that this had given a strong, shared understanding of the risk appetites.

The Committee noted the register and acknowledged that overall management of risk is a matter reserved to the Board.

9 WHISTLEBLOWING POLICY

The Committee noted the report outlining proposed changes to the Company's Whistleblowing policy. CW advised that recent legislative changes in relation to employers' obligations to prevent harassment have led to a review of the Company's policies and the introduction of a new, separate Anti-Bullying and Harassment Policy, elements of which were previously included in the Whistleblowing Policy. The Committee was advised that the revised Whistleblowing Policy deals only with the requirements under the Whistleblowing Act.

The Committee was advised that there have been no instances of whistleblowing in the Company to date so the implementation of the Policy has never been tested. Noting his role as the nominated non-Executive Director in the Policy, AB requested further information and support on the implementation of the Policy.

CW to provide AB with further information and support on the implementation of the Policy.

The Committee noted and approved the updated Whistleblowing Policy.

10 FRAMEWORK AGREEMENT COMPLIANCE

The Committee noted the report detailing compliance with the SFT Framework Agreement over 2024/25. CW highlighted the inclusion of narrative describing how compliance is achieved against each element.

CW advised that the Framework Agreement is being reviewed for alignment with the new Corporate Plan and recalled that the current Framework references discussion on reaching future agreement on inclusion of the Company in Scottish Government pay policy. The Committee acknowledged that inclusion in pay policy is likely to be raised during the current Framework review and discussed the impacts of adopting pay policy. PR noted that while the Company's pay awards in recent years have generally aligned

with pay policy recommendations the considerable administrative processes involved in pay policy compliance would have significant resourcing implications for the Company.

11 UPDATE ON EXTERNAL AUDIT

The Committee noted the report on the progress of the external audits for both SFT and SFT Investments.

CW highlighted the two potentially challenging areas identified of pension valuation in the SFT accounts, and core judgments such as investment valuations and fair value calculations in the SFTi accounts as discussed under item 6.

The Committee noted that the pension valuation from Hymans is showing a large pension asset and CW advised that, as last year, the application of an asset ceiling calculation would then reduce the asset to £nil in the accounts. CW confirmed that this has yet to be reviewed by the auditors.

The Committee noted the proposed timetable for approval of the SFTi and SFT accounts. It was noted that only draft SFT accounts will be available for the SFT Board review in September pending the confirmation of the pension valuation. AB confirmed that it is proposed that delegated authority be sought from the SFT Board for the Board Chair and Group Audit Committee Chair to sign off the accounts on the Board's behalf in October, noting that should there be any significant change the accounts would be brought to the full Board in November.

12 COMMITTEE PERFORMANCE

The Committee noted the report providing prompts for discussion on the performance and effectiveness of the Committee.

The Committee discussed its performance and considered that it is working well. The Committee agreed that the papers provided are clear, comprehensive and of good quality which allows the Committee to carry out its remit effectively. The Committee commended the transparency from the Executive.

The Committee noted its Terms of Reference and considered that they are being met with all matters covered in the annual cycle of meetings.

13 AOB

There was no further business.
The meeting ended at 12.55pm.