

## MINUTES

Meeting of: SFT Group Audit Committee

Date & Time: 19 August 2019, 2pm

Place: Board room, 1<sup>st</sup> floor, 11-15 Thistle Street, Edinburgh, EH2 1DF

Present: Graham Watson (GW) (Chairman)  
Pauline Mills (PM)  
Bill Matthews (BM)  
Ann Allen (AA)

Apologies: Ann Faulds (AF)

In attendance: Ian Russell (IR)  
Peter Reekie (PR)  
Viv Cockburn (VC)  
Caroline Whyteside (CW)  
James McBride (JM) (Scott Moncrieff, Part meeting)  
Liz Petrie (LP) (minutes)

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### **1 FORMALITIES**

#### **1.1 APOLOGIES & DECLARATION OF INTERESTS**

Apologies were noted from AF. No new interests were declared.

#### **1.2 MINUTE OF PREVIOUS MEETING**

The minute of the meeting of 25 June 2019 was noted and agreed as a correct record.

#### **1.2 ACTION TRACKER**

The actions were reviewed and timescales for ongoing actions noted.

### **2 DECISION**

#### **2.1 ANNUAL REPORTS AND FINANCIAL STATEMENTS**

*JM joined the meeting for Items 2.1 and 3.1*

##### **Audit Management Report**

JM provided an overview of the Audit Management Report and the Committee noted the report.

JM agreed with the conclusion that there are no issues impacting the going concern of either Company. The Committee further noted that Scott Moncrieff have carried out non-audit services in the year but were satisfied that from the division of personnel and responsibility described by JM, the audit process was independent.

The Committee noted the nine areas of risk identified at the audit planning stage and the assurances received. JM highlighted that no further significant issues had been identified during the course of the audit work.

JM outlined the adjustments described as Post Audit Adjustments in Section 4 and Appendix 1 of the report. It was noted that these adjustments had been made by management after the beginning of the audit process rather than corrections required to be made by the auditors and it was agreed that the wording of the report should be revised to clarify this.

*Description of adjustments to be clarified in the Audit Management Report.*

In respect of SFT it was noted that adjustments related principally to the planned introduction of IFRS16 and treatment of income from Scottish Government in respect of the pension scheme.

Adjustments outlined for SFT Investments were noted as relating to IFRS9 and VC outlined the process undertaken to establish fair value of both the equity and subordinated debt investments. It was noted that the discount factor would require to be re-assessed annually.

**SFTi Annual Report and Financial Statements**

The Committee noted the draft Annual Report and Financial Statements for SFT Investments Ltd. GW asked that minor comments such as typographical errors be advised to VC outwith the meeting and invited Directors to raise any substantive comments.

VC highlighted the increase in investments of £1.3m in comparison to the previous year and the dividend payment to SFT of £0.86m which the SFTi Board had approved in March. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

It was agreed that the narrative in respect of the membership of the SFTi Investment Committee should be revised, and subject to revisions recommended, the Committee agreed to recommend approval of the SFTi Annual Report and Financial Statements to the Board in September.

**SFT Annual Report and Financial Statements**

The Committee noted the draft Annual Report and Financial Statements for SFT Ltd. GW asked that minor comments such as typographical errors be advised to VC outwith the meeting and invited Directors to raise any substantive comments.

The Committee reviewed the risk drafting within the accounts and were satisfied it represented the approach adopted. VC highlighted movements in income and expenditure in comparison with the previous year, highlighting the decrease in

expenditure relating to the full year impact of the non-replacement of the Deputy Chief Executive role.

The Committee further noted the revised treatment of the office lease due to early adoption of IFRS16 with a right of use asset now recognised within the Statement of Financial Position.

The Committee noted the increase in advisory fees in comparison with the previous year which was attributed in the main to a decreased use of associates by the Company subsequent to the introduction of IR35 legislation and an increased use of advisors. VC described the internal processes for approving and tracking advisory expenditure, including grants the Company awards, and the Committee agreed that an annual review of advisory spend should be brought to the Board. It was further agreed that the Company's Procurement policy should be brought to a future Board meeting.

*Advisory spend to be reviewed annually by the Board.*

*The Company's Procurement policy to be brought to a future Board meeting.*

VC further highlighted the contingent liabilities associated with the pension scheme which would increase the pension scheme deficit further if they materialised.

Discussion took place on the basis and format of gender balance reporting and it was requested that further guidance on gender reporting be sought prior to bringing the Annual Report to the Board for approval.

*Further guidance on gender reporting be sought prior to bringing the Annual Report to the Board for approval.*

Subject to revisions recommended, the Committee agreed to recommend approval of the SFT Annual Report and Financial Statements to the Board in September.

#### **Letter of Representation**

The Committee reviewed the draft letter of representation which had been annotated to describe the information and reassurances provided by the Executive team to the auditors. The Committee agreed to recommend approval and signature of the letter to the SFT Ltd and SFT Investments Ltd Boards.

### **3 MONITORING**

#### **3.1 AUDITOR FEEDBACK**

(PR, VC, CW and LP left the meeting for this item.)

#### **3.2 AUDITOR PERFORMANCE**

VC advised that the audit had proceeded smoothly, and that Scott Moncrieff provided proactive support in the introduction of accounting changes such as IFRS9.

### **3.3 REVIEW OF COMMITTEE TERMS OF REFERENCE**

The Committee noted and endorsed the minor changes proposed in the Committee's Terms of Reference relating to changes of personnel and titles.

It was highlighted that the Committee had reviewed the need for an internal audit function earlier in the year and confirmed that the Committee is satisfied that the current internal controls process is appropriate and sufficient for the organisation.

The Committee discussed its current composition of all non-executive directors bar the Chairman and whether or not this optimised scrutiny. It was agreed to ask the Boards to consider options for Committee membership in September 2019.

*Membership of the Committee to be considered by Boards in September 2019.*

### **3.4 BENEFITS VALIDATION**

The Committee noted the report outlining the external validation process and conclusions in relation to the benefit estimation for 2018/19. The Committee noted that the methodology was consistent with the previous year and that process had been reviewed and validated by Grant Thornton. It was further confirmed that the external auditors, Scott Moncrieff, had reviewed the validation of the benefits estimate.

The Committee was advised that proposals for measuring benefits and outcomes in the new corporate plan period will be brought to the SFT Board in September.

### **3.5 CORPORATE RISK REGISTER**

The Committee noted the report and CW described the outputs from a Leadership Team workshop on risk which had reviewed the risk management context, current processes in the Company to manage risk, a detailed review of the Corporate Risk Register and key work stream risks. The Committee noted the actions and deadlines arising from the workshop.

It was noted that following the last risk update, the SFT Board had been briefed on quality issues on several projects within programmes in which SFT has a role. The Committee discussed the impact of these emerging issues under risk S7 relating to quality failure and the cumulative reputational impact of these issues on the organisation as well as the frameworks or financial models created by the Company. The Committee further discussed the Company's limited ability to foresee and mitigate against construction phase issues arising on individual projects. PR highlighted that when issues arise the organisation, rather than isolate itself, generally allocates resource to try to help resolve the issue.

The Committee noted that 'reputation' is currently one of three elements used to gauge the impact of all risks identified in the register and discussed reputation as a separate risk.

Following discussion the Committee requested that further consideration be given to separate reporting of reputational risk and that the risk arising from the cumulative effect of issues on projects over which SFT does not have direct control be further considered and incorporated in register.

The Committee requested that an updated report on risk be taken to the Board in September.

*Further consideration to be given to separate reporting of reputational risk.  
Risk arising from the cumulative effect of issues on projects over which SFT does not have direct control be further considered and incorporated in register.  
An updated report on risk to be taken to Board in September.*

**4 NOTING**  
**4.1 DRAFT INVESTMENT MANAGEMENT POLICY**

The draft Investment Management policy was noted and discussed. The Committee recalled that the policy was being developed in response to the Investment Management Review carried out by Scott Moncrieff and VC confirmed that the draft policy would be shared with Scott Moncrieff.

*VC to share draft policy with Scott Moncrieff.*

The Committee provided comment on the draft and requested that a revised draft be brought to the SFT Investments Board in September for further consideration.

The Committee acknowledged and discussed the conflicts of interests arising for those holding Public Interest Directorships. The Committee recommended that the Board give further consideration to these appointments.

It was agreed that the Board should give further consideration to Public Interest Director appointments and regular updates should be brought on representation on external boards.

*Board to give further consideration to Public Interest Director appointments and regular updates should be brought on representation on external boards.*

**4.2 PUBLIC SECTOR REFORM ACT DISCLOSURE**

VC outlined the context of the Public Sector Reform Act Disclosure requirement. The Committee noted the report for publication.

**4.3 SUSTAINABILITY REPORT**

The Committee noted the Sustainability Report for submission to Scottish Government and publication. The Committee noted the targets achieved for 2018/19 and VC advised that the targets remained the same for the current year.

**5 AOB**

**There was no further business.**