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## MINUTES

Meeting of: SFT Group Audit Committee

Date & Time: 22 June 2020, 1pm

Place: by video conference

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

In attendance: Peter Reekie (PR)  
Caroline Whyteside (CW)  
Nial Gemmell (NG) (part meeting)  
Liz Petrie (LP) (minutes)

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### FORMALITIES

#### 1 APOLOGIES & DECLARATION OF INTERESTS

There were no apologies. No new interests were declared.

#### 2 MINUTE OF PREVIOUS MEETING

The minute of the meeting of 27 January 2020 was noted and agreed as a correct record.

#### 3 ACTION TRACKER

The actions were reviewed and timescales for ongoing actions noted.

### DECISION

#### 4 INTERNAL AUDIT PROPOSAL

The Committee noted the proposal for internal audit arrangements for the coming year, given that revised ethical standards prohibit Scott Moncrieff from carrying out both internal and external audit functions. CW confirmed that internal controls reports planned for 2020/21 had been brought forward and carried out in 2019/20 with the final report on management reporting being presented to the Committee at the current meeting.

CW outlined the proposed procurement of a new internal auditor using the APUC framework and that to encourage bidders the appointment be made for a period of three years. The Committee noted that this approach is in line with the requirements of the new framework agreement under consideration with Scottish Government.

The Committee noted the listing of reviews undertaken in recent years and was satisfied that key internal control areas had been covered. CW advised that as potential risk has arisen in the recent period from home working during COVID-19 lockdown it is proposed that this be reviewed within 2020/21.

The Committee confirmed that it was comfortable with the approach outlined and approved the proposal that:

- The 7 firms on the APUC framework are invited to bid for the work
- Contract term be 3 years
- One internal control review on home working is commissioned in 20/21
- Budget remaining be utilised only if another risk topic arises in 20/21

## 5 WORKING CAPITAL LOANS

*This item was discussed at the beginning of the meeting with NG in attendance*

The Committee noted the paper reviewing the need to recognise any expected credit losses in relation to the two outstanding working capital loans provided by SFT Investments Ltd to the hub companies at their inception.

NG outlined the basis of the assessments carried out taking into account IFRS9 guidance, the companies' past performance, current circumstances and future pipeline and forecasts. NG confirmed that the 'going concern' status of all hub companies has been scrutinised in the recent period.

The Committee noted and discussed the recommendation that due to the fact the full balance of hub South West's working capital loans are within the reserve account and have not yet been drawn, it is recommended that an expected credit loss is not recognised for hub South West. The Committee agreed this recommendation.

[REDACTED]

[REDACTED]

*A further report to be brought to August Committee meeting for decision.*

## 6 RE-APPOINTMENT OF EXTERNAL AUDITORS

The Committee noted the report proposing to re-appoint Scott Moncrieff as external auditors for a further two years.

CW advised that were SFT to sign up to the new framework agreement with Scottish Government, Audit Scotland would be SFT's external auditor carrying out the audit themselves or appointing a firm from their panel. Audit Scotland has delayed the procurement of a new panel with the existing panel covering 2021 and 2022 year end audits.

CW further confirmed that the proposed extension would not lead to a breach of the original procurement limit when the contract was tendered.

The Committee agreed that pending clarity on the framework agreement with Scottish Government it would be prudent to extend the current appointment for two years and approved the proposal.

## **7 MONITORING CORPORATE RISK REGISTER**

The Committee noted and discussed the corporate risk register. CW advised that the Leadership Team had carried out an in-depth review of the register in the context of COVID-19. CW highlighted the risks that had changed in the period since the last review and outlined the four new risks that had been added.

The Committee discussed internal and external elements to the risks and the extent to which external risks can be mitigated in particular in regard to constrained public procurement resources not being able to match ambitions and expectations for economic recovery.

The Committee confirmed that it would like to continue receive the full risk register including those now rated 'green'.

## **8 INTERNAL CONTROLS REVIEW**

The Committee noted the Scott Moncrieff report on financial management information which confirmed the Company has generally sound financial management information systems and processes in place. CW advised that action is being taken on the one recommended area for improvement on documenting the rationale for investing variances against budget. The Committee was content with the management action described.

## **9 METHODOLOGY TO REPAY CAPITAL GRANTS**

The Committee noted the report describing the proposed methodology for repaying funding provided by Scottish Government to SFT prior to 2015 which was then granted on to SFT Investments. CW advised that at the time the agreement had been that these grants would be treated as non-repayable in both companies' accounts but Scottish Government has now indicated that these grants are to be repaid.

CW described the methodology proposed to make the repayments through dividend payments by SFT Investments to SFT and subsequent transfer of the payments to Scottish Government by SFT. The Committee was advised that the methodology has been agreed

with external auditors, Scott Moncrieff. The Committee was advised that the Company would not have been able to utilise the grants to be repaid to cover revenue costs and noted that there are no investments currently planned by SFT Investments.

The Committee agreed the proposed methodology to repay the capital grants.

## **10 MEASURING PROGRESS AND IMPACT**

The Committee noted the report outlining the procurement approach and appointment of a supplier to undertake assurance in respect of the outcomes-based approach to reporting the impacts of the Company's work.

The Committee noted the summary of the tender valuation and that Grant Thornton had been appointed for one year with an option to extend for a further two years. The Committee was advised that Grant Thornton's report will be presented to the Committee at its meeting in August.

*Grant Thornton report to be presented to the Committee in August.*

## **11 AOB**

External audit – CW confirmed that the external audit has proceeded to schedule whilst working remotely from the office.