
MINUTES

Meeting of: SFT Group Audit Committee

Date & Time: 21 June 2021, 2pm to 3.30pm

Place: by video conference

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

Apologies: Bill Matthews (BM)

In attendance: Peter Reekie (PR)
Caroline Whyteside (CW)
Asam Hussain (AH), RSM (part meeting)
Nial Gemmell (NG) (part meeting)
Ruth Hann (RH) (part meeting)
Liz Petrie (LP) (minutes)

FORMALITIES

1 APOLOGIES & AGENDA

Apologies were noted from BM.

2 DECLARATION OF INTERESTS

No new interests were declared.

3 MINUTE OF PREVIOUS MEETING

The minute of the meeting of 1 February 2021 was noted and agreed as a correct record.

4 ACTION TRACKER

The actions were reviewed and timescales for ongoing actions noted.

MONITORING

5 INTERNAL CONTROL REVIEWS PLAN 21-24

(AH joined the meeting for items 5 and 6)

The Committee noted and discussed the report setting out a proposed plan for internal controls reviews for the period 2021/22 to 2023/24 and considered the need for an internal audit function.

The Committee agreed that the current internal controls measures in place continue to be appropriate for the size and complexity of the Company and an internal audit function is not required. The Committee noted that should a new Framework document be agreed with Scottish Government a formal internal audit service would need to be provided and acknowledged that such a service would entail specific requirements.

AH outlined the proposed internal controls plan for 2021/22 to 2023/24. It was noted that two internal reviews have been completed in 2021/22 and an additional review of IT security, business continuity and disaster recovery is recommended in the year. The Committee agreed the importance of reviewing and testing cyber security. CW advised that in addition to the review, training for all staff is being scheduled in the coming months.

The Committee approved the plan, noting that it will be reviewed annually to ensure that any changing priorities are accommodated.

6 INTERNAL CONTROL REVIEWS

The Committee noted the report outlining the findings, management actions and next steps from two recently completed internal control reviews on the hub West loan and Hilton of Rosyth LLP.

AH described the main findings of the report on the hub West loan and acknowledged the investigations undertaken internally by SFT staff in researching and reviewing the historic governance processes around the approval of the working capital loan.

It was noted that while processes and procedures had been set up for making initial investments, the governance around changing investments had been unclear. Staff changes had also affected communication. The Committee noted that lessons have been drawn from the report and appropriate updates as recommended have been included in the Investment Management Policy.

AH further outlined the Agreed Upon Procedures report [REDACTED]

The Committee noted the findings of the review, [REDACTED]

[REDACTED] AH advised that these include a requirement for a second approver and the introduction of more appropriate accounting software. The Committee noted that the actions recommended are in hand. The Committee agreed the importance of working with SMEs as well as larger developers.

The Committee further noted that Burness Paull LLP has been engaged to advise on options should the recommendations of the report not be adhered to.

7 INTERNAL CONTROLS & FINANCIAL PROCEDURES MANUAL AND INVESTMENT MANAGEMENT POLICY

The Committee noted the recommended updates to the Internal Controls and Financial Procedures Manual. CW advised that the changes centre on new electronic finance processes and the output from the internal controls reviews. The Committee further noted the proposed changes to the Investment Management Policy reflecting the internal controls review findings.

The Committee approved the revised Internal Controls and Financial Procedures Manual and agreed to recommend the updated Investment Management Policy to the SFTi Board.

8 CORPORATE RISK REGISTER

The Committee noted the corporate risk register. CW highlighted the changes since the Committee reviewed the register in February including the introduction of a risk on the changes in the public sector landscape impacting the business approach and delivery of workstreams. The Committee further noted that the register has been reviewed monthly by the Leadership Team.

Discussion took place on the legal support being given by in-house lawyers and risk related to the use of a legal skill set being deemed to be the provision of legal advice. AF questioned how any claim that advice had been given could be rebutted. The Committee was advised that Professional Indemnity insurance is not in place and would most likely not be possible as generally there are no written terms under which work is undertaken with stakeholders and partners.

PR advised that a new Senior Associate Director role is being created to act as a focal point for internal legal work and proposed that on appointment, the individual be asked to undertake a review of governance of internal legal work and the risks discussed. The Committee noted the position and asked to be informed of the outcome of the review in order to consider if a further independent review is appropriate.

Review of governance of internal legal advice to be undertaken.

9 PROJECT AND PROGRAMME GOVERNANCE

The Committee noted the report on the governance arrangements and controls in place for the projects and programmes in which the Company has a role. CW confirmed that this is reviewed regularly by Leadership Team and highlighted recent changes.

10 SFTi ACCOUNTS

NG and RH joined the meeting for this item.

The Committee noted the report analysing the working capital loans from SFTi Ltd to hub West and hub South West and recalled that SFTi Ltd recognised an expected credit loss of £36k against the loan to hub West for the year ended March 2020.

The Committee noted the impairment provision methodology adopted based on the IFRS9 'expected credit losses' model and NG advised that a detailed analysis of the most recent business plans, pipelines and cashflows have been undertaken as laid out in the report's appendices. NG highlighted hub West's current trading performance and strong pipeline with more than 50 projects spread across sectors.

In relation to hub South West it was highlighted that the working capital loans are held within the reserve account and the reserve account has not been accessed for over five years. The Committee was advised that the base case analysis forecasts that this balance will be paid on expiry in November 2021.

The Committee agreed:

- an expected credit loss of £8.9K is recognised against the hub West working capital loan (based on a 10% low probability of default) and an expected credit loss of £26.3K is recognised against the amounts to be converted to a capital contribution after the year end. The expected credit loss of £36k be retained (no additional expected credit loss be charged to the Statement of Comprehensive Income); and
- an expected credit loss is not recognised for hub South West.

The Committee further noted the analysis performed to assess the value of SFTi hub DBFM equity and subordinated debt investments to determine any gain or loss on equity valuation and whether or not an expected credit loss provision is required against subordinated debt investments in the year ending March 2021 SFTi annual accounts.

RH outlined the treatment being adopted for the valuation of hub DBFM equity and subordinated debt including the key areas of judgement which the Committee noted are in accordance with the approved accounting policies for the Group. The Committee approved that a gain on the fair value of equity of £79k is recognised in the SFTi annual accounts for the year ended March 2021. The Committee further noted that no expected credit loss provision is required against subordinated debt investments.

11 COMMITTEE PERFORMANCE

GW led discussion on the performance of the Committee. GW acknowledged the positive progress made in the last 18 months, including the appointment of the new internal controls provider and the more frequent and active review of project and programme governance by both the Leadership Team and the Committee.

The Committee considered that while they have a range of skill sets and an open culture, the Committee may benefit from an external party being co-opted on to it, to provide fresh perspectives. The Committee requested that options for co-opting an external party to the Committee be considered and brought to a future meeting

Options for co-opting an external party to the Committee to be brought to future meeting for consideration.

12 AOB

There was no other business.