

MINUTES

Meeting of: Group Audit Committee

Date & Time: 03 September 2018

Place: Norton House Hotel, Edinburgh

Present: Graeme Watson (GW) (Chairman)
Ann Faulds (AF)
Fiona Mackenzie (FM)
Carolyn Dwyer (CD)

In attendance: Ian Russell (IR)
Peter Reekie (PR)
Viv Cockburn (VC)
James McBride (JM) (Scott Moncrieff)
Nick Bennett (NB) (Scott Moncrieff)

1 APOLOGIES

There were no apologies and no new declarations of interest.

2 MINUTE OF PREVIOUS MEETING

The minute of the meeting of the Committee of 26 June 2018 was reviewed and agreed as a correct record.

There were no matters arising from the minute.

3 ACTION TRACKER

The action tracker was reviewed and progress against actions noted.

- Item 1: It was noted that the format of the Annual Accounts would be agreed as part of the discussions regarding updating the MSFM. [REDACTED]
[REDACTED]
[REDACTED]
- Item 2: Training opportunities to be developed following recruitment of three new NEDs.
- Item 3: see separate agenda item
- Item 4: to be circulated

4 REVIEW OF ANNUAL ACCOUNTS

Audit Management Report

NB provided an overview of the Audit Management Report covering the audit conclusion; audit risks identified during the audit; significant audit and accounting matters; accounting systems and controls and any unadjusted items. NB noted that no

system weaknesses had been identified as part of the audit work and the unadjusted errors were immaterial and identified within the report.

There was a discussion regarding the audit risks identified at planning stage. NB provided further detail regarding Risk 6: confirming that the defined benefit pension scheme is accounted for and disclosed in accordance with IAS19. This was particularly important this year as new guidance had been issued in July 2018 by the Financial Reporting Council indicating additional audit steps auditors should take to audit pension scheme valuations. It was noted that following circulation of the Annual Accounts to the Audit Committee an issue had been identified with the actuarial valuation of the pension scheme which led to the Scheme's assets being understated. The issue arose as Hymans Robertson had forecast the value of pension scheme assets as at 31 March 2018 based on 31 December 2017 market valuations. When the pension scheme accounts had been published it was recognised that actual market value of the pension scheme accounts were significantly higher. This meant that the annual accounts for SFT would need to change – further details would be provided whilst reviewing the SFT Annual Accounts.

SFTi

VC provided an overview of the SFTi Annual Accounts and key movements. GW noted that he had reviewed these and suggested additional disclosure which had been included within the Accounts circulated to the Audit Committee.

The Audit Committee reviewed the Accounts and agreed to recommend them for approval to the SFTi Board.

SFT

VC provided an overview of the SFT Annual Accounts and key movements. A proforma was tabled which showed the impact of the change in the actuarial valuation of the pension scheme..

It was noted that the deficit of the scheme had decreased from a forecast deficit of £2.933m as per the initial Hymans Robertson valuation to £2.7m – a change of £233k which was deemed to be material. The latter valuation was based on an updated IAS19 valuation report provided by Hymans Robertson on Friday 31 August. As SFT's pension scheme liability is underwritten by Scottish Government the liability on the pension scheme is met through accrued income. The adjustments to the Statement of Comprehensive Income were to:

- decrease other income by £233k; and
- change the Actuarial loss on post-employment benefits from a loss of £97k to a gain of £136k.

For the Statement of Financial Position, the movements were:

- the Non-current assets: Accrued income in respect of pension liabilities decreased from £2.933m to £2.7m; and
- the Pension liability decreased from £2.933m to £2.7m

GW noted that he had reviewed the SFT Accounts and suggested additional disclosure which had been included within the Accounts circulated to the Audit Committee. The Audit Committee reviewed the Accounts and agreed to recommend them for approval to the SFT Board once updated for the revised pension scheme report.

Letter of Representation

The Audit Committee reviewed the Letter of Representation and agreed to recommend that this is signed to the SFT & SFTi Boards.

5 AUDITOR FEEDBACK

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

6 AUDITOR PERFORMANCE

VC commented that the audit had proceeded smoothly, and that Scott Moncrieff had adopted a proactive approach to the future IFRS changes.

7 REVIEW OF PSRA

VC explained the context to the PSRA and the key disclosure items. The Audit Committee noted the content.

8 REVIEW SUSTAINABILITY REPORT

VC explained the context to the Sustainability Report and that SFT had met its carbon targets for 2017/18. It was noted that that these targets would be rolled forward for Financial Year 2018/19 and that SFT's ability to meet these tended to be linked to the amount of air travel undertaken by employees. This reflected the fact that the bulk of emissions arose from business travel. The Audit Committee noted the content.

9 CORPORATE RISK REGISTER

The Audit Committee noted the updated Risk Register.

10 ICT SECURITY REVIEW

The Audit Committee noted that SFT had achieved Cyber Essentials Plus and a report had been provided outlining the approach which had been adopted to testing the systems and how SFT had performed.

VC provided a verbal update on the IT service provider Indigo noting that the provider had forwarded evidence of its Microsoft accreditation although financial information was still outstanding. It was noted that service levels remained good and that the security accreditation had been achieved despite the liquidation of the original provider and the transfer of SFT's business to Indigo. This transfer is still to be formally agreed by SFT as the company is still to provide financial forecast to provide reassurance on financial and economic standing.

11 BENEFITS VALIDATION

PR outlined the benefits validation approach and confirmed that effectiveness factors would be distributed shortly.

12 AOB

Office Move: it was noted that SFT had been asked to review whether the office space at Waverley Gate would be suitable for SFT if SFT co-located with another public body such as SNIB. VC outlined that the Waverley Gate space had been reviewed by SFT and SNIB and that it was likely to be too small given the space requirements of SNIB. SFT now need

to provide a submission to Scottish Government confirming this position and suggesting we remain at Thistle Street for another year.

New Finance System: VC noted that it was likely that a new finance system would need to be introduced during 2018/19 to meet the requirements of HMRC and e-Invoicing. It was agreed that an update would be included within the Financial Report to the October Board.