
MINUTES

Meeting of: SFT Group Audit Committee

Date & Time: Tuesday 20 June 2023, 12 noon to 1pm

Place: Boardroom, 11-15 Thistle Street, Edinburgh & on line

Present: Graham Watson (GW) (Chair)
Pauline Mills (PM)
Bill Matthews (BM)
Stella Matko (SM)
Nick Rowan (NR)

In attendance: Caroline Whyteside (CW)
Peter Reekie (PR)
Asam Hussain (AH) (part meeting – agenda items 1 to 6)
Matthew Stacey (MS) (part meeting – agenda items 1 to 6)
Ruth Hann (RH) (part meeting – agenda item 9)
Liz Petrie (LP) (minutes)

Apologies: Stephen Slessor (SS)

FORMALITIES

1 APOLOGIES AND AGENDA

Apologies were noted from SS.

2 DECLARATION

No new interests were declared.

3 MINUTES OF PREVIOUS MEETINGS

The minute of the meeting of Monday 30 January 2023 was agreed as a correct record subject to the removal of the word, 'To', at the end of the fourth paragraph on item 5, outcomes reporting.

The minute of the meeting of Tuesday 9 May 2023 was agreed as a correct record.

4 ACTION TRACKER

The action log was noted and reviewed. The Committee confirmed the request that training on FReM be arranged.

MONITORING

5 INTERNAL AUDIT PLAN 23/24

The Committee noted the report on the internal audit plan including the draft internal audit plan for 2023/24, the internal audit strategy 2020 to 2024 and the internal audit charter.

AH confirmed the areas it is intended to cover in 2023/24 as: Quality of Board and Audit Committee reporting; general ledger and payroll controls; and procurement. It was noted that in addition RSM have also been engaged to provide assurance on outcomes reporting. AH advised that an initial meeting is being held with Grant Thornton who previously undertook this work.

AH further highlighted key aspects of the Internal Audit Charter setting out core purpose, principles and responsibilities for the internal audit service. The Committee noted and approved the Charter as part of the audit strategy and agreed the proposed internal audit plan for 2023/24. The Committee further noted that RSM's contract is due to end in October 2023 and agreed to the proposal to exercise the option to extend for one year.

6 INTERNAL AUDITS 22/23 – FOLLOW UP

The Committee noted the report on the follow-up to the internal audits 2022/23 and the 2022/23 opinion.

AH advised that all actions identified had been implemented and no further management actions are required. AH further confirmed that there is a constructive relationship with management with a prompt turnaround on information requests and actions.

AH confirmed that the opinion given is the highest level of internal audit opinion that can be granted noting substantial assurance in two of the three areas audited and good progress in the follow-up.

7 INTERNAL CONTROLS & FINANCIAL PROCEDURES MANUAL

The Committee noted the Internal Controls and Financial Procedures Manual incorporating recommended updates. CW advised that the proposed amendments relate principally to align with the recently revised Procurement and Contracts Policy approved by the Board in January 2023 as well as new reporting requirements under FReM. CW confirmed that the Manual applies across both SFT and SFT Investments.

The Committee discussed the approval process for purchase orders outside agreed budgets and was advised that this refers to internally agreed budgets allocated to teams or workstreams. The Committee was advised that such approvals are sought rarely. The Committee requested that a summary of such approval requests be drawn up and included in the report on consultancy spend which is regularly reviewed by the SFT Board.

A summary of requests outside agreed budgets to be included in regular reports on consultancy spend taken to the Board.

The Committee agreed that the delegated authorities were appropriate to the size of the organisation.

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

8 CORPORATE RISK REGISTER

The Committee noted the corporate risk register. CW advised that the register is reviewed monthly by the leadership team.

CW highlighted the changes made since the Committee last reviewed the register in January 2023. CW advised that risk relating to the Company's funding had been split to consider future funding and current year funding separately with both rated 'red'. [REDACTED]

CW further highlighted the trend analysis of the risk scores relating to the three consistent top red risks over the last 18 months together with the total scoring of all red risks. Overall risk was noted as having slightly increased with the addition of new red risks to the current register.

The Committee was advised of progress in preparations for an externally facilitated session on risk appetite with the full Board as previously recommended by the Committee. Two sessions, facilitated by RSM, have taken place with Leadership Team. The Committee was advised that these sessions have reviewed the overall approach to risk as well as risk appetite and a further session is to take place over the summer to develop risk themes and draft risk appetite for Board discussion, potentially at the Board strategy day in October 2023.

9 SFTI ACCOUNTS

Review of Working Capital Loans Expected Credit Loss

The Committee noted the paper detailing the background to and review of working capital loans to hub West and hub South West.

RH recalled that in the previous year, expected credit losses were recognised against the working capital loans to hub West and hub South West of £7.9k and 3k respectively. RH outlined the analysis undertaken of both companies' business plans, pipelines and cashflows. RH advised that pipelines include both secured and unsecured projects with risk weightings attached to each project. It was noted that using current base case forecasts and approved business plans for each company it has been assumed that secured pipelines will be delivered and unsecured pipeline not fully converted. RH confirmed that the analysis indicates an expected credit loss for hub West of £6.9k and no expected credit loss for hub South West.

[REDACTED] Under the scenarios considered the working capital loans for both companies could be fully repaid over the next 6 to 18 months.

The Committee approved the recognition of a £6.9k expected credit loss against the hub West working capital loan and £0k expected credit loss against the hub South West working capital loan.

The Committee noted that the analysis and recommendations remain subject to external audit which is ongoing.

Review of Equity and Subordinated Debt valuation

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 equity valuation and whether or not an expected credit loss provision would be required against subordinated debt investments in the SFTi accounts 2022/23.

The Committee noted the treatment to be adopted for the valuation of hub DBFM equity and subordinated debt including the key areas of judgement which are in accordance with the approved accounting policies for the SFT Group.

RH advised that the approach and methodology is consistent with that used in previous years with equity in hub DBFM projects being valued at fair value and subordinated debt in hub DBFM projects valued at cost.

The Committee noted the recommendation that a gain on fair value of equity of £159k is recognised and noted and discussed the main reasons for the gain. RH outlined the reasons for the increase in the Net Present Value of the dividends forecast by the projects and confirmed that the significant increase in the Levenmouth project due to Deemed Lease Premium relief is an exceptional adjustment. The Committee further noted that an assessment of the discount rate has been carried out and it is deemed reasonable to continue with 11%.

The Committee acknowledged that the investments are not being held with a view to selling but are being held to maturity and agreed that the valuation approach used continues to be appropriate.

The Committee noted the approach to monitoring subordinated debt investments in the hub DBFM projects. RH confirmed that two projects, Alford and Wick, are being closely monitored for potential impairments but no impairment adjustment is recommended at this stage.

The Committee agreed to recommend approval that a gain on the fair value of equity of £159k is recognised in the 2022/23 SFTi annual accounts and that no expected credit loss provision is required against subordinated debt investments.

The Committee further acknowledged that the above is subject to any adjustments arising from the external audit.

10 UPDATE ON EXTERNAL AUDIT

The Committee noted the report providing an update on the progress of the external audit by Grant Thornton together with a proposal on the format of a proposed publication of summarised accounts.

CW advised that the audits of SFT and SFT Investments are each being undertaken by different teams in Grant Thornton. CW advised that the SFT Investments audit is behind schedule and confirmed that she had been in contact with the lead auditor regarding timetable.

The Committee noted and discussed the two challenging areas of audit identified to date: pension valuation and treatment including the fluctuation from £4.1m deficit last year to £7.2m asset this year; and core judgments on SFTi's investments where Grant Thornton are reviewing assumptions and approaches including to investment valuation, expected credit losses and portfolio model and this work is behind schedule.

The Committee agreed the recommended approach of producing a plain set of full accounts as in previous years and publishing, in addition, a summary accounts document.

11 COMMITTEE PERFORMANCE

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

The Committee discussed training and agreed that the previously proposed training on FReM should be scheduled. Committee members were encouraged to consider future training requests and advise the Chair.

FReM training to be scheduled and members to consider training needs and advise.

The Committee noted its Terms of Reference and considered that they are being met. The Committee agreed that the information provided through the annual meeting cycle to the Committee facilitates a clear understanding of governance and risk to the business. The Committee considered the cycle of three scheduled meetings per year to be appropriate. PM commented that, as a non-financial specialist, the level of transparency and reporting from both the executive and the auditors gives confidence in the controls in place.

The Committee considered that external feedback on its performance should be sought and agreed to ask the Board Chairman to seek feedback on Committee performance from the internal and external auditors.

GW to request that the Board Chairman seeks independent feedback on the Committee performance.

The Committee further agreed that the Committee should hold discussions with the internal auditors in the absence of the executive at least once annually, reflecting the practice with the external auditors.

12 AOB

No other business was raised.