

MINUTES

Meeting of:	SFT Group Audit Committee
Date & Time:	Monday 13 November 2023, 8.30am
Place:	On-line by MS Teams
Present:	Graham Watson (GW) (Chairman) Stella Matko (SM) Bill Matthews (BM) Nick Rowan (NR) Stephen Slessor (SS)
Apologies:	Pauline Mills (PM)
In attendance:	Peter Reekie (PR) Caroline Whyteside (CW) Joanne Brown (JB), Grant Thornton Rebecca Lister (RL), Grant Thornton Lorraine Macphail (LM), Grant Thornton Ruth Hann (RH) Alison Wilson (AW) Liz Petrie (LP) (minutes)

1 FORMALITIES

1 APOLOGIES & AGENDA

Apologies were noted from PM.

2 DECLARATION OF INTERESTS

No new interests were declared nor interests highlighted in relation to the agenda.

3 DECISION

3 APPROVAL OF ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR YEAR ENDED 31 MARCH 2023

Introduction

It was noted that the meeting had been called to consider the annual reports and financial statements of SFT Investments Ltd and SFT Ltd for recommendation of approval to the Boards. GW noted that the meeting arranged for October to consider the annual reports had been cancelled. Copies tracking changes of the audit findings reports and Annual Reports since the cancelled meeting had been circulated to the Committee.

Audit Findings for SFT Investments Ltd

The Committee noted Grant Thornton's audit findings report for SFT Investments Ltd. LM confirmed that the three main issues discussed with the Committee at its meeting in August had been resolved:

- LM noted that equity in hub DBFM projects had previously been accounted for at fair value with a fixed discount rate applied. She noted that this rate had been revised to a market rate aligned to that adopted for subordinated debt and this has been applied for the March 2023 year end and the preceding two years.
- LM advised that the change to holding subordinated debt at fair value rather than cost has had a significant impact on the accounts. It was noted that a fair value calculation for year ending March 2023 and the preceding two years was prepared by management and extensive testing carried out by Grant Thornton.
- The Committee further noted the change in the classification and treatment of the transaction of funds made available for investment between SFT and SFT Investments with this now being treated as a capital contribution.

LM also noted the work involved in assessing the tax impact on the changes to the three years' figures.

LM outlined other findings, including the lack of segregation of duties which she acknowledged was due to the small size of the team. She highlighted the recommendation that the team keep abreast of IFRS standards and their application. AW confirmed that the recommended action to remove her superuser access to the Dynamics system is in hand and CW confirmed that management acknowledges the recommendations, confirming that management will give further consideration to related parties.

The Committee noted the restatements from the three years ending March 2021, 2022 and 2023 arising from the changes in treatments now adopted. The Committee recognised that the fair value calculations now applied made the figures in the year on year accounts considerably more volatile. The Committee acknowledged that as the Company has no intention of transacting the investments the volatility is expected to unwind over time.

SFT Investments Ltd Annual Report and Financial Statements

The Committee noted the draft Annual Report and Financial Statements for SFT Investments Ltd.

The Committee noted that after costs, and a loss on fair value on subordinated debt investments, a loss of £1.7m before tax is shown in the accounts. Noting the tax credit of £432k, the Committee noted the loss of £1.3m against the £885k profit in the previous year. The Committee questioned how this loss would be understood by those reading the published accounts. RH highlighted the explanation of the fluctuation on page 3 of the accounts and the narrative describing the healthy return from investments prior to fair value movements. The narrative outlined that as the intention is to hold the investments to maturity, the return before fair value movements is an important financial indicator for the Company. The Committee agreed that this explanation was helpful and further agreed to the proposal that an explanatory note be suggested for the Chair's statement.

Chair's statement to be updated.

The Committee agreed to recommend approval of the Annual Report and Financial Statements to the board of SFT Investments subject to:

- Requested changes to the Chair's statement;
- Any alterations arising from discussions/agreements later in the meeting; and
- Confirmation of ongoing support from Scottish Futures Trust as shareholder.

Annual Audit Report for Scottish Futures Trust Ltd

The Committee noted the Annual Audit Report for Scottish Futures Trust Ltd. JB referred to the treatment of the pension asset which had been discussed at the Group Audit Committee meeting in August. JB noted that a capped pension asset, calculated by an actuary engaged by SFT, has been recognised within the accounts. JB explained that the cap has been adopted in line with accounting standards and the recognition of the asset is based on the assumption that SFT would benefit from a reduction in employer contributions in the future. PR outlined his concerns that any reduction could be matched by a reduction in funding to the Company and not therefore constitute an asset. The Committee discussed this risk and SS suggested that this be tracked through the risk register. SM commented that the swing from pension liability to asset in the year is common to other public sector pension schemes and different approaches on how this will impact future contributions for both employers and employees are being discussed.

CW confirmed that management is content with the action plan laid out in the report and that actions are being put in hand.

Scottish Futures Trust Ltd Annual Report and Accounts

The Committee noted the draft Annual Report and Accounts for Scottish Futures Trust Ltd for the year ended 31 March 2023.

With reference to the discussion on the pension asset the Chair requested that note 14 in the accounts be revised for clarity.

Note 14 to be revised.

The Committee agreed to recommend approval of the Annual Report and Financial Statements to the board of SFT Investments subject to:

- Requested changes to note 14; and
- Any alterations arising from discussions/agreements later in the meeting.

Draft Letter of Representation

The draft letter of representation with management responses was noted. CW confirmed that the letter and responses were consistent with the previous year. The Committee agreed to recommend to the Boards of Scottish Futures Trust and Scottish Futures Trust Investments that the letter of representation be agreed and signed.

Audit fees

Discussion took place on the additional fees being requested by Grant Thornton for carrying out both the SFT and SFT Investments audit.

In SFT Investments, LM outlined the substantial work which had not been foreseen relating to the review of valuation treatments and subsequent work on the drafting of the financial statements for the current and previous two years. She referred to the need for an unexpected level of specialist, technical advice. The Committee questioned why this had not been foreseen in setting the fee and expressed concern on the value for money of the increased fee being requested. LM referred to the analysis of, and agreement to change, a range of approaches which had required specialist input and scrutiny and had impacted three years' accounts.

The Committee agreed that the basis for the additional fees proposed required more detailed discussion and agreed that GW together with PR and CW would take forward discussions with Grant Thornton with a view to reaching agreement to allow the accounts for both Companies to be recommended to the Board later in the week.

GW, PR and CW to take forward discussions with Grant Thornton to agree audit fees.

4 AUDITOR FEEDBACK

PR, CW, RH and AW left the meeting

GW invited JB and LA to provide feedback to the Committee on the audit.

JB noted the challenge of adopting FreM for the first time and advised that SFT's small team had been proactive and responsive. She acknowledged the elongated time taken for this first audit and acknowledged that better preparation will be possible in future years.

LM similarly welcomed the responsiveness of the SFT Investments team and noted the high quality of the papers requested of and submitted by the team in the course of the audit.

5 AUDITOR PERFORMANCE

PR and CW rejoined the meeting

GW invited CW to provide feedback to the Committee on the audit.

CW acknowledged that the first year with new auditors can be challenging. She considered that there could have been less duplication of work if there had been closer liaison between Grant Thornton's SFT and SFTi audit teams and timelines could be improved in future through better communication.

The Committee acknowledged the learning curve following the appointment of new auditors and agreed the importance of continuity in the audit team to build on knowledge in future years.

6 AOB

There was no other business.

The meeting ended at 9.35am