

## MINUTES

Meeting of: SFT Group Audit Committee

Date & Time: Monday 21 August 2023, 2pm

Place: Boardroom, 11-15 Thistle Street, Edinburgh

Present: Graham Watson (GW) (Chairman)  
Pauline Mills (PM)  
Bill Matthews (BM)  
Nick Rowan (NR)  
Stephen Slessor (SS)

Apologies: Stella Matko (SM)

In attendance: Peter Reekie (PR)  
Caroline Whyteside (CW)  
Joanne Brown (JB), Grant Thornton (part meeting – Items 1-5)  
Rebecca Lister (RL), Grant Thornton (part meeting – Items 1-5)  
Lorraine Macphail (LM), Grant Thornton (part meeting – Item 5)  
Fraser Doak (FD), Grant Thornton (part meeting – Item 5)  
Asam Hussein, (AH), RSM (part meeting – Item 6 )  
Matthew Stacey (MS), RSM (part meeting – Item 6)  
Katie Ferrie (KF) (part meeting -Item 6)  
Liz Petrie (LP) (minutes)

---

### **1 FORMALITIES**

#### **1 APOLOGIES & AGENDA**

Apologies were noted from SM.

#### **2 DECLARATION OF INTERESTS**

No new interests were declared.

#### **3 MINUTE OF PREVIOUS MEETING**

The minute of the meeting of 20 June 2023 was noted and agreed as a correct record.

#### **4 ACTION TRACKER**

The action log was noted. It was noted that actions are in hand with a number relating to the annual accounts to be scheduled when accounts are finalised for approval. Scheduling of other items for consideration within the financial year was noted.

## 5 MONITORING ANNUAL REPORTS AND FINANCIAL STATEMENTS

### Introduction

GW advised that the August meeting of the Committee would generally be presented with a final set off accounts to consider with a view to recommending approval to the Board. The Committee noted that a number of technical issues identified by the Companies' new external auditors, Grant Thornton, are still being worked through and that an additional meeting will require be scheduled.

### SFT Investments Ltd

The Committee noted the summary of the three main issues identified in respect of SFT Investments together with Grant Thornton's draft Audit Findings Report. LM outlined each issue in turn:

Treatment of equity investments: LM noted that equity in hub DBFM projects has to date been valued at fair value and confirmed that this treatment is considered appropriate. She outlined that historically a fixed discount rate of 11% has been applied and management has now agreed that a market rate as at the balance sheet date would be appropriate which will bring the approach into line with proposed changes to the valuation of subordinated debt. It was noted that the previous treatment was based on equity alone being held at fair value and that with the change in treatment for subordinated debt (see below), an appropriate combined market discount rate for the 22/23 year end as well as the previous two year ends has been identified by management. The Committee noted that the change in approach will have to explained in the published accounts.

Treatment of subordinated debt: The Committee noted that to date subordinated debt has been measured at amortised cost. It was confirmed that this accounting treatment had been agreed by SFTi's former auditors when IFRS9 Financial Instruments first came into effect in 2018. LM confirmed Grant Thornton's opinion that under IFRS9 this should be accounted for using the fair value method.

It was acknowledged that IFRS 9 is complicated and the Committee was advised that since its introduction the International Accounting Standards Board has issued further material. This further material reflects that whilst there remains some lack of clarity around the interpretation of IFRS 9 for project-finance style of investment as opposed to investments in pools of financial assets to which much of the drafting appears to more directly apply, there is an emerging preference in the definition of Contractually Linked Instruments for the term 'transaction' to be understood as a whole project rather than limited to the subordinated debt alone which was the basis for the previous treatment. Management therefore intends to adopt this interpretation. The Committee noted that the impact of adopting the fair value approach for the 22/23 accounts and prior year adjustments is currently being analysed including the tax implications. The Committee was advised that no figures are available at the moment but the impact would be significant. The Committee was further advised that the former auditors have been consulted and remained content with the interpretation of the standard and accounting treatment which had been applied in previous years.

The Committee discussed the presentation of any changes to the approaches adopted and to the prior years' figures within the published accounts. It was acknowledged that whilst the IFRS 9 Standard has not changed further clarifications have been issued since it came into effect in 2018. The Committee asked that the narrative explaining the changes of the approach to valuation within the accounts be drafted for early consideration and agreement by the committee.

*The narrative explaining the changes of the approach to valuation within the accounts to be drafted for early consideration and agreement by the committee.*

Loan/grant between SFT and SFT Investments: LM outlined the ongoing assessment of the classification and treatment of the transaction of funds made available for investment between SFT and SFT Investments. It was confirmed that progress on this issue is expected in the coming week. Should a revision in treatment be agreed it was noted that prior year adjustments and explanations would be required in this respect also.

PR noted the Board's responsibility to present an "understandable" as well as accurate Annual Report and considered that the changes being discussed did not aid understandability of SFT / SFTi's accounts. LM noted that in many cases application of fair value had not aided understandability, but that understandability had to be considered in the context of the application of required accounting standards.

#### **SFT Ltd**

The Committee noted the summary of the pension issue identified in respect of SFT Company and Group accounts together with Grant Thornton's draft Audit Findings Report. The Committee noted that matters discussed in relation to SFT Investments will also impact the SFT Group accounts.

The Committee noted the significant swing in the Company's pension actuarial report from a liability of £4.1m in 21/22 to a net asset of £7.2m for 22/23. It was discussed that a pension asset position is highly unusual and may well be temporary, but that it must be accounted for correctly whilst it exists. The Chair questioned whether the actuarial asset in the pension scheme should really be considered as an asset of the Company. The Committee was advised that under the guidance obtained to date it is probable that the asset will be shown in the accounts. JB advised that this is affecting organisations across the sector.

RL highlighted the 'wider scope' audit carried out beyond the financial statements and confirmed that no significant issues had been identified.

#### **Draft Letter of Representation**

The draft letter of representation with management responses was noted. It was noted that PR as Accountable Officer would be asked to sign when finalised.

The Committee discussed the timetable for agreeing approaches and putting through adjustments, taking holidays and approval processes into consideration. It was noted that the accounts require to be laid before Parliament prior to their submission to Companies House before the end of December. The Committee agreed that a one-hour meeting should be scheduled on-line in October to consider the final accounts.

## 6 INTERNAL AUDIT

### **SFT Outcomes – Measuring Progress and Impact: Assurance**

The Committee noted the report on the assurance work undertaken by RSM on 2022-23 SFT's outcomes reporting. The Committee recalled that this was the first year RSM have undertaken this assurance work.

MS outlined the approach taken to the assurance work and confirmed the opinion of substantial assurance. MS advised that three areas had been identified to strengthen what is considered already to be a robust process. KF confirmed that the three recommendations for enhancing reporting covering enhanced governance of workstream data, undertaking spot checks and more robust contingency planning have been adopted for future years' reporting.

The Committee confirmed satisfaction with the assurance work undertaken and its outcome in accordance with the previously agreed approach. PR confirmed that the website will reference the change of assurance provider rather than outline the detailed scope of assurance work.

AH thanked KF for her extensive work and support during the first year of RSM undertaking work in this area.

### **Governance: Board reporting**

The Committee noted the update on internal audit 2023/24 including the first of the three reviews planned for the year on 'Governance: quality of board reporting'. AH outlined the work undertaken including reviewing meeting packs and audit trails on decision making for the SFT Board and Group Audit Committee. He confirmed the conclusion that appropriate quality packs are provided to allow directors to discharge their duties robustly and that an opinion of substantive assurance has been given.

The Committee noted the two recommendations arising from the review in regard to circulating material used to support verbal reports and recording the end time of meetings. PR reflected that the Chair was keen that it is acknowledged that verbal briefings and discussion, properly included in the meeting minute, are an important part of Board meetings. The Committee agreed with this point and noted that the recommendations are being implemented.

## 7 REVIEW OF COMMITTEE TERMS OF REFERENCE

The Committee noted its terms of reference and that no updates were being recommended. NR highlighted that the terms refer to the Committee being responsible for the appointment of the external auditor. The Committee acknowledged that this applies only to SFT Investments Ltd as the SFT auditor is now appointed by Audit Scotland. CW advised that she would review the relevant section of the terms of reference and circulate recommended revisions with changes tracked.

*CW to review and re-circulate Committee terms of reference.*

**8 CORPORATE RISK REGISTER**

The Committee noted and discussed the corporate risk register covering key strategic and corporate risks. CW outlined the changes to the register since the review in June 2023 highlighting the reduction in the risk relating to in-year 23/24 funding. It was confirmed that this risk is considered separately from the risk of cuts to funding in the longer term which remains one of the four 'red' rated risks.

The Committee acknowledged and discussed the risk associated with the publication of accounts as raised earlier in the meeting including the interaction of the published accounts with budget setting.

[REDACTED]

The Committee further noted that a discussion of risk themes and appetite is being scheduled within the Board strategy day agenda in October.

**NOTING****9 PUBLIC SECTOR REFORM ACT DISCLOSURE**

The Committee noted the Public Sector Reform Act Disclosure report and that it would be published in line with the Annual Report. It was confirmed that previous years' publications have not attracted any feedback.

**10 SUSTAINABILITY REPORT**

The Committee noted the Sustainability Report and noted that the report would be published in line with the Annual Report.

It was noted that carbon emissions have risen in relation to the previous year but remain lower than pre-pandemic. PR advised that some public bodies are encouraging as many meetings and interactions as possible to happen online to reduce carbon footprint. He advised that within SFT's current flexible working guidelines some travel including to the office is being encouraged as a balance which includes in-person as well as virtual working enhances overall effectiveness. The Committee agreed with the hybrid approach.

PR confirmed that opportunities to increase sustainability will be sought in the new office.

**11 AOB**

There was no other business.

The meeting ended at 3.15pm