
MINUTES

Meeting of: SFT Group Audit Committee

Date & Time: Monday 24 June 2024, 12 noon

Place: Shared board room, Thistle House, 91 Haymarket Terrace, Edinburgh

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

Apologies: none

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

1 FORMALITIES

1 APOLOGIES & AGENDA

There were no apologies.

2 DECLARATION OF INTERESTS

No new interests were declared.

3 MINUTES OF PREVIOUS MEETINGS

The minutes of the meeting of Monday 29 January 2024 were approved as a correct record.

4 ACTION TRACKER

The action log was reviewed.

CW confirmed that Grant Thornton's Audit Director has agreed to provide a training session on FReM accounting. The Committee welcomed the training and agreed that it should be set up as an on-line/hybrid session.

The Committee recalled the discussions on risk appetite and the appetite statements drafted following the board strategy day in October 2023 and questioned how the risk

appetite is feeding through to the Company's activities. CW confirmed that the appetite statements are being applied for strategic decisions. PR advised that consideration had been given to mapping the risks listed in the risk register to the appetites but as several appetite statements could apply to individual risks the mapping was unclear. The Committee agreed the need for the Board and Executive to regularly consider and refresh risk appetite.

MONITORING

5 INTERNAL AUDIT PLAN 24/25

CW advised the Committee that the internal audit service had been re-tendered and RSM had been successful. Their new appointment will run for three years with an option to extend for one year. It was confirmed that the same team will work with SFT going forward.

AH and MS joined the meeting.

The Committee noted the internal audit strategy 2023 to 2026 including the draft internal audit plan for 2024/25 and the internal audit charter.

AH advised that following a review of areas recently audited, audits in 2024/25 are being planned to cover: business continuity; cyber security; and sickness absence management. It was noted that in addition RSM will continue to provide assurance on outcomes reporting. The Committee was advised that cyber security was last reviewed as part of the annual cycle internal controls reviews in 2021 and this will be the first time an audit opinion is issued. It was noted that Cyber Essentials Plus accreditation is sought and gained annually.

The Committee approved the internal audit plan for 2024/25 and agreed the Internal Audit Charter.

6 INTERNAL AUDITS 23/24 – FOLLOW UP AND OPINION

The Committee noted the report on the follow-up to the internal audits 2023/24 and the 2023/24 internal audit opinion.

AH advised that all actions identified had been implemented and no further management actions are required.

The Committee noted the opinion that, 'The organisation has an effective framework for risk management, governance and internal control', and that this is the highest level of internal audit opinion that can be granted.

AH and MS left the meeting.

MONITORING

7 INTERNAL CONTROLS AND FINANCIAL PROCEDURES MANUAL

The Committee noted the Internal Controls and Financial Procedures Manual incorporating recommended updates. CW advised that the proposed amendments to

accounting procedures are mainly in response to the 2023 statutory audit findings. CW confirmed that fully documented step by step procedures sit below the Manual.

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

8 CORPORATE RISK REGISTER

The Committee noted the corporate risk register including the highlighted movements in risks and mitigations since the Committee's last review in January 2024.

CW advised that where risks have become issues they have been moved from the risks listing and incorporated in a separate high level issues log. Additionally where elements of individual risks within the register have crystallised as issues, this has been highlighted within the register.

The Committee welcomed the logging of issues in addition to risks and agreed that future tracking should include how many risks become issues. The Committee further asked that consideration be given to capturing any issues that do not arise from risks identified within the register.

Tracking of risks becoming issues to be introduced and consideration given to inclusion of issues which have not crystallised from registered risks.

9 SFT INVESTMENTS ACCOUNTS

RH joined the meeting for this item.

hub 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 recommended gain or loss on valuation to be recognised in the annual accounts to end March 2024.

RH confirmed that the valuation calculations are based on the operational financial models received from the 41 hub project companies as at 31 March 2024. RH outlined the methodology behind determining the recommended discount rate including both a review of market discount rates and a review of DBFM asset performance. RH advised that following an assessment of discount rates used by other entities in the infrastructure sector together with an assessment of economic conditions a discount rate of 8.25% is recommended to calculate the fair value of investments across the portfolio.

RH confirmed that detailed testing and analysis of project performance had been carried out and it was concluded that no performance matters required adjustments to be made to the discount rate for individual projects. The Committee noted that although two projects currently forecast that some amounts will not be repaid they are both undertaking Deemed Lease Premium relief analyses and it is expected that the tax relief will improve the cashflow position on these projects.

RH further highlighted the removal from the portfolio model of forecast dividends for the five sub-hub companies as it cannot be assumed under the current structure that

dividends will flow through to SFT Investments. RH confirmed that the removal of this assumption has been highlighted to the auditors.

The Committee noted that the treatment being proposed for the valuation of equity and subordinated debt is consistent with the previous year and is in accordance with the approved policies for the SFT Group.

The Committee agreed the recommendation that a gain on the fair value of subordinated debt of £168k and a gain on the fair value of equity of £146k are recognised in the SFT Investments' annual accounts for the year ending 31 March 2024.

The Committee acknowledged that the figures remain subject to external audit.

Review of Working Capital Loans Expected Credit Loss

The Committee noted the report providing an analysis of whether or not adjustments are required to the expected credit losses for the hub West and hub South West working capital loans and any impact on the 2023/24 annual accounts.

The Committee noted the approach to assessing the impairment provision for the loans and that a detailed analysis had been undertaken of both companies' business plans, pipelines and cashflows. RH confirmed that the analysis indicates an expected credit loss for hub West of £4.8k and no expected credit loss for hub South West.

RH highlighted that the hub South West loan is due for full repayment in November 2024.

The Committee approved the following:

- an expected credit loss of £4.8k is recognised against the hub West working capital loan (based on a 10% low probability of default); and
- no expected credit loss is recognised against the hub South West working capital loan

The Committee noted that the above remains subject to any adjustments required arising from the external audit.

10 MAPPING OF UK CORPORATE GOVERNANCE TO FREM

The Committee noted the report mapping the reporting requirements of the UK Corporate Governance Code 2018 which were followed by the Company prior to adoption of the Framework Agreement with the reporting requirements under FREM.

The Committee reviewed elements of reporting which are not required under FREM and considered that continued reporting on some key elements not included under FREM would be of value. The areas discussed for continued reporting were on the views of other key stakeholders and commentary on the future prospects of the Company. The Committee recommended that consideration be given to continued reporting on these areas within the Company's Annual Report and Financial Statements.

Consideration be given to continued reporting on stakeholder views and future prospects within the Company's Annual Report and Financial Statements.

11 UPDATE ON EXTERNAL AUDIT

The Committee noted the report on the progress of the external audit outlining the audit timetable. CW considered that the audit teams are working better together than in the previous year.

CW highlighted potentially challenging areas for the audits as treatment of the pension asset and core judgements on SFT Investments' valuations.

12 COMMITTEE PERFORMANCE

The Committee noted the report providing prompts for discussion on the performance and effectiveness of the Committee. The Committee noted its Terms of Reference and considered that they are being met with all matters covered in the annual cycle of meetings. The Committee discussed its performance and considered that it is working well. It was agreed that an external perspective should be sought and that the Chair of the Board should be requested to seek comments on the performance of the Committee from both the internal and external auditors.

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

13 AOB

There was no further business.
The meeting ended at 12.55pm.