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## MINUTES

Meeting of: SFT Group Audit Committee

Date & Time: Monday 30 January 2023, 12.15pm

Place: Boardroom, 11-15 Thistle Street, Edinburgh

Present: Graham Watson (GW) (Chairman)  
Pauline Mills (PM)  
Bill Matthews (BM)

Apologies: none

In attendance: Peter Reekie (PR)  
Caroline Whyteside (CW)  
Asam Hussain, RSM (AH) (part meeting)  
Liz Petrie (LP) (minutes)

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

There were no apologies.

### **2 DECLARATION OF INTERESTS**

No new interests were declared.

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

The minute of the meeting of 29 August 2022 was noted and agreed as a correct record.

GW requested that including a statement in the SFTi Annual Accounts cover report on the outcome of the independent commercial review of the SFTi portfolio model be added to the action log for tracking.

### **4 ACTION TRACKER**

The action log was noted.

### **5 DECISION OUTCOMES REPORTING**

The Committee noted the report on measuring impact and progress on Corporate Plan outcomes and outlining the proposal that RSM undertake the assurance work as part of the internal audit programme.

CW highlighted the change also in internal resourcing of the work. Following the departure [REDACTED], this work will be undertaken by the Infrastructure Strategy team, led by [REDACTED]. CW confirmed that there had been a handover of the outcomes work.

The Committee noted the high-level workplan for 2022-23 reporting, following a similar approach to previous years. CW confirmed that the management actions from the final Grant Thornton assurance report have been reviewed and three of the four agreed for implementation going forward.

The Committee noted the scope of the assurance work carried out in the past three years by Grant Thornton, whose contract has now expired. The Committee reviewed and discussed the revisions to the process proposed by RSM to undertake the assurance work and avoid any conflict with their existing Internal Audit function. It was noted that the remit included an assessment of the processes used to derive assumptions.

*Update on assumptions to be brought to the Committee annually.*

The Committee approved RSM's proposal and their appointment to undertake the outcomes assurance work.

## **6 MONITORING CORPORATE RISK REGISTER**

The Committee noted the corporate risk register and CW highlighted the changes made since the Committee last reviewed the register. It was noted that the previous 'corporate' section of the risk register has now been merged with the rest of the register to form a combined strategic risk register.

The Committee noted and discussed the top risk relating to cuts to funding, noting the confirmed cut to core funding and that while the majority of programme funding has been confirmed some elements remain uncertain.

The risk relating to staff retention was discussed. CW confirmed that the succession planning carried out by the Leadership Team includes an annual review of key people and posts and reviews individual flight risk and how to mitigate.

The Committee further considered the other top risks relating to uncertainty and changes in public sector landscape, ongoing inflation and constrained resources across the public sector landscape and discussed how impacts are being monitored and mitigated.

The Committee noted that following its recommendation, a facilitated session on risk appetite and management is now scheduled to take place at the Board meeting in May 2023.

## **7 INTERNAL AUDIT UPDATE**

The Committee noted the report providing an overview on the internal audit undertaken in 2022/23 covering Risk Management and Governance, Budgetary Management and HR Recruitment and Retention.

The Committee discussed the findings of the HR Recruitment and Retention report where a number of issues to be addressed were identified. PR advised that the majority of issues raised related to processes not fully followed by the wider SFT team rather than to the HR team which is considered to be strong. The Committee was further advised recommended actions were put in hand promptly and the Committee agreed that RSM should be asked to spot check the issues raised.

*AH joined the meeting for this item.*

AH described the key findings and management actions identified in each of the three internal audits:

- Risk Management and Governance: AH confirmed the internal audit opinion of substantial assurance. He outlined some recommendations to improve risk reporting including standardising formatting across corporate and workstream registers for ease of escalation.
- HR Recruitment and Retention: AH confirmed the internal audit opinion of reasonable assurance. He highlighted that sample testing had shown some inconsistencies in the application of some processes. The Committee noted that five out of the six actions had been completed and the final action on reporting to the Board on trends for staff leaving will be implemented in line the Board report cycle. AH confirmed that RSM will follow up with spot checks on actions completed.
- Budgetary Management: AH confirmed the internal audit opinion of substantial assurance. No areas for action were identified.

The Committee was advised that the final Internal Audit Opinion will be reported to the Committee in June together with a the Internal Audit Plan for the coming year.

*AH left the meeting.*

The Committee noted the progress relating to Hilton of Rosyth LLP, [REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

## **8 MSFM AND NEW FRAMEWORK AGREEMENT COMPLIANCE**

The Committee noted the report on compliance with the Management Statement and Financial Memorandum (MSFM) for the year to date and proposals for future compliance reviews with the new Framework Agreement which replaces the MSFM.

CW advised that the Framework Agreement has received Ministerial and has therefore received all necessary approvals and now replaces the MSFM.

The Committee noted the compliance with the key requirements of the MSFM in the year to date and discussed the proposals for monitoring compliance with the Framework

Agreement over 2023 with a report to be brought to the Committee in January 2024. The Committee agreed the proposed format and content of the compliance review for reporting in the first year of the Framework adoption, and that proposals for a summarised review of key requirements could be considered for future years' monitoring.

*Consideration to be given to format and content of compliance reports following the first review in January 2024.*

## **9 FReM UPDATE**

The Committee noted the report outlining progress on the move to the Financial Reporting Manual (FReM) in line with the requirements of the Scottish Public Finance Manual (SPFM) now adopted under the Framework Agreement.

CW highlighted the work undertaken to re-state the prior year (ending March 2022) under FReM which has been carried out by SFT's Head of Finance with support from Azets. The Committee noted the main changes and the draft figures which have not yet been reviewed by the new external auditors, Grant Thornton.

The Committee noted that an initial meeting has been held with Grant Thornton. CW confirmed that a fee proposal is expected in February and an audit plan should be drawn up by the end of March. It was agreed that the Committee should meet on-line to review the Audit Plan.

*An additional meeting of the Committee to be convened to review the Audit Plan.*

The Committee noted and discussed the impact of adopting FReM on the front-end of the accounts, highlighting that more narrative is likely to be required in particular on outcomes and performance. The Committee further noted that previously the Company has reported against the UK Corporate Governance Code which contributed significantly to the volume of the front-end of previous Annual Accounts. CW advised that given the revised governance reporting required under both the SPFM and FReM, it is recommended that the Company ceases to report against the UK Corporate Governance Code. The Committee agreed the recommendation subject to mapping the reporting requirements under each regime to assess any gaps.

*Mapping of new reporting requirements against UK Corporate Governance Code to be undertaken.*

The Committee further noted and discussed the recommendation to some enhancement to the design and format of the Annual Report, and asked that draft proposals be brought to the Committee in June for consideration.

*Proposals for front-end of Annual Report to be brought to the Committee in June 2023.*

## **10 WHISTLEBLOWING POLICY**

The Committee noted the whistleblowing policy in place and that no changes to the policy are recommended. It was confirmed that no instances of whistleblowing were

reported during the last year. The Committee asked that regular reminders continue to be given to staff to signpost the policy.

## **11 PROJECT AND PROGRAMME GOVERNANCE**

The Committee noted the report describing the governance arrangements and controls in place for the projects and programmes in which SFT has a role and highlighting the changes since the Committee last reviewed the report in January 2022.

CW highlighted substantive changes to the Net Zero section where a number of heat-related advisory and reference boards have been set up. The Committee discussed and agreed to the removal in the next reporting cycle of detail for programmes where projects are now in their operational phase.

The Committee noted the changes in external appointments which members of SFT staff hold in their capacity as members of the SFT/ SFTi team. CW confirmed that all Public Interest Director roles have now been externalised with the Company providing payroll services for five of these appointments.

CW advised that the key man risk across the hub directorships held by a single member of staff is mitigated through the appointment of alternate directors on all Boards and confirmed that the alternate directors attend at least one meeting each year.

The Committee acknowledged the inherent risk around programmes where SFT has involvement but not overall control and how to mitigate this through being clear on the extent of SFT's role.

## **12 AOB**

There was discussion on training for the Audit Committee and including that Grant Thornton be asked to provide training on FReM.

*Consideration to be given to training for committee members including on new FReM format.*

The formal appointment of the Chief Executive to the role of Accountable Officer as outlined in the papers for the SFT Board meeting on 30 January was noted. It was requested that CW check on whether or not this appointment had any effect on the Directors' and Officers insurance cover.

*CW to check on whether or not Accountable Officer appointment has any effect on the Directors' and Officers insurance cover.*