



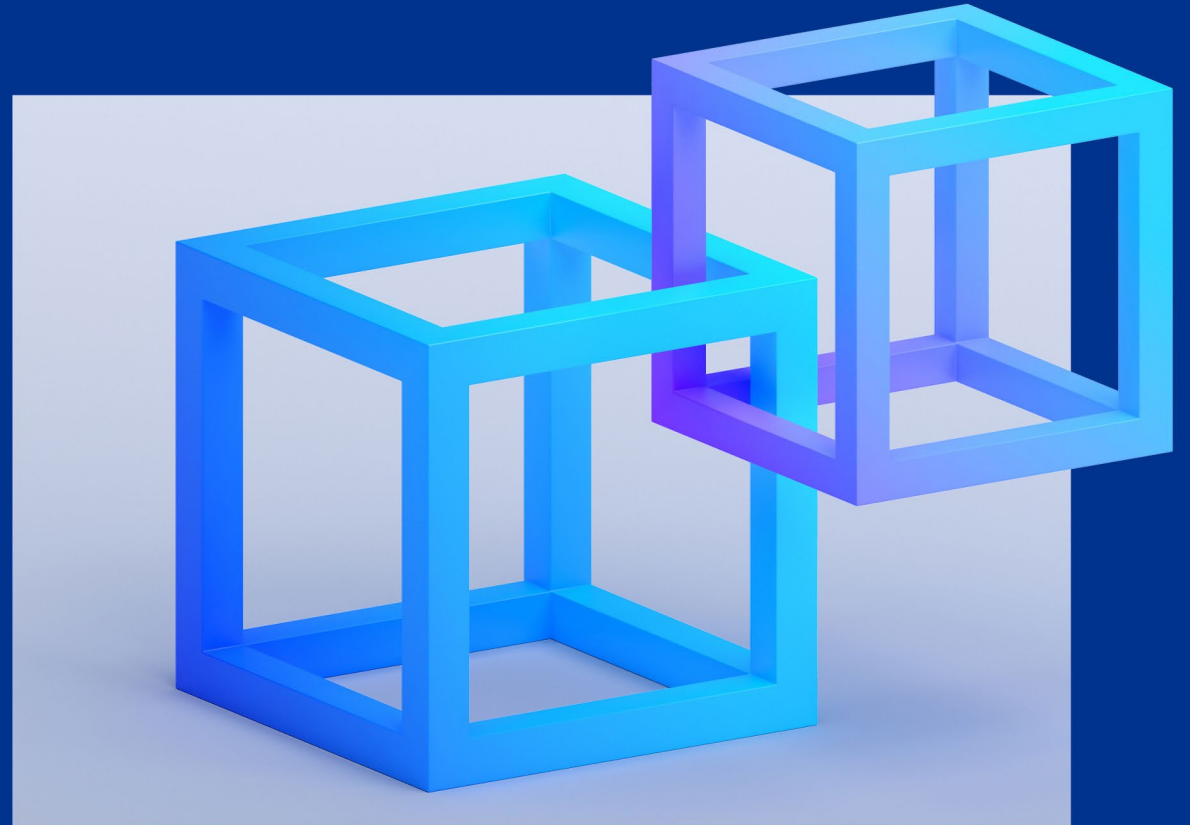
Scottish National Investment Bank plc

Report to the Audit Committee

**Consolidated financial statements for the year ended
31 March 2024**

Report Date: 26 June 2024

Meeting Date: 27 June 2024



Introduction

To the Audit Committee of Scottish National Investment Bank plc

We are pleased to provide you with an updated view of our findings in respect of our audit of the consolidated financial statements of Scottish National Investment Bank plc (the 'Company') and its subsidiaries (the 'Group'), as at and for the year ended 31 March 2024.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 27 November 2023 and our Audit Highlights Memorandum dated 19 June 2024 (presented to the Audit Committee on 25 June 2024).

The engagement team

Our audit is substantially complete other than those matters described at page 5. There have been no significant changes to our audit plan and strategy.

Subject to the Board's approval, we expect to be in a position to sign our audit opinion on during the week beginning 1 July 2024, subject to the Board's approval of the financial statements and auditor's representation letter, provided that the outstanding matters noted on page 5 of this report are satisfactorily resolved.

We expect to issue an unmodified Auditor's Report.

We draw your attention to the important notice on 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely,



Philip Merchant

26 June 2024

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

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Important notice

This report is presented under the terms of the Audit Scotland letter of appointment.

Circulation of this report is restricted.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the consolidated financial statements of Scottish National Investment Bank plc (the 'Company') (and its subsidiaries (the 'Group')), prepared in accordance with International Financial Reporting Standards ('IFRSs') as at and for the year ended 31 March 2024.

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ('the Code').

This report is for the benefit of Scottish National Investment Bank Plc ('SNIB') and is made available to Audit Scotland, the Auditor General and the Scottish Government, as a body (together 'the Beneficiaries'). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Group's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors reporting to the Company's members in accordance with the Companies Act.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. Page 5 'Outstanding matters' outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

Restrictions on distribution

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Our audit findings

Significant audit risks Page 6

Those marked as key audit matters will be covered in our final audit report.

Significant audit risks	Risk change	Our findings
Management override of Controls	None	We have identified a significant control deficiency in the financial reporting process. Refer to page 7 and 14 for details.
Valuation of unlisted investments (key audit matter)	None	We found the Group's valuation of unquoted investments to be acceptable.

Key audit matters that are not deemed to be significant audit risks

Recoverability of parent's debt due from group entities (key audit matter for the parent)	None	We found the conclusion that there is no impairment of the intra-group debtor balance to be acceptable.
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Key accounting estimates

Valuation of unlisted Investments	Slightly optimistic but within acceptable range.	We assessed the valuation of unlisted investments as reasonable following our review of the variable inputs to each valuation. We have not identified any indicators of potential management bias.
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Corrected / uncorrected Audit Misstatements

We have identified corrected and uncorrected audit differences. See page 15 - 16 for details.

Number of Control deficiencies Page 14

Significant control deficiencies	1
Other control deficiencies	1
Prior year control deficiencies remediated	0

Materiality Financial statements Actual £'000 Planning £'000

Total assets		
Materiality (Group)	12,900	8,540
Reporting threshold (Group)	645	427
Materiality (Parent)	5,810	3,843
Reporting threshold (Parent)	291	192

Materiality has been revised because the benchmark, total assets as at 31 March 2024 has increased since planning.

Outstanding matters

The following items are outstanding as at the date of this Report:

- Completion of reviews, resolution of queries and receipt of outstanding information.
- Signed letter of support from Parent Company in favour of Subsidiaries.
- Finalising audit work over financial statement note disclosures.
- Final assessment of Annual Report and Financial Statements including clearing responses to our accounts comments and subsequent finalisation of our disclosure checklists, including any changes following the board's review of annual report.
- Receipt of signed financial statement and management representation letter.
- Completion of post balance sheet events review up to date of sign off.

The matters above are based on the work performed up to the date of this report.

Significant risks and other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which Scottish National Investment Bank plc operates.

We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

During our audit, we identified a financial reporting control deficiency which has impacted the risk of material misstatement as highlighted on slide 14.

See the following slides for the cross-referenced risks identified on this slide.

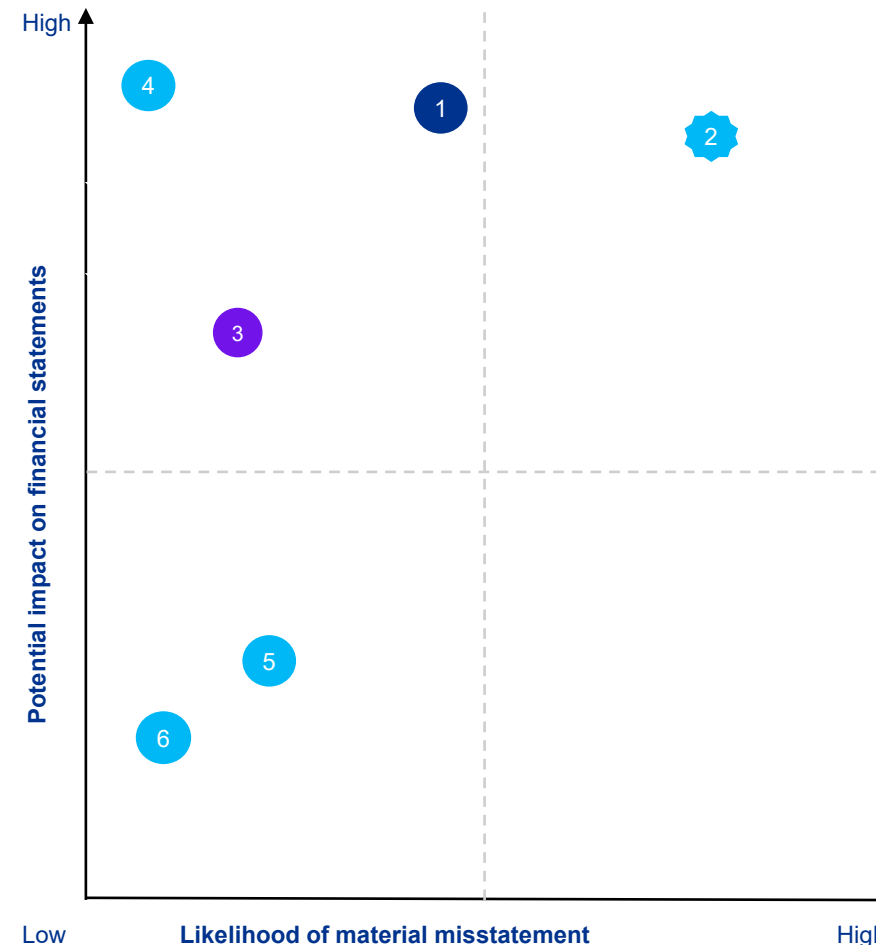
Significant risks

1. Management override of controls
2. Valuation of unlisted investments (key audit matter)

Other areas of audit focus

3. Recoverability of parent's debt due from group entities (key audit matter for the parent)
4. Going concern
5. Administrative expenses
6. Cash

- Key:
- # Significant financial statement audit risks
 - # Key audit matter
 - # Other areas of audit focus
 - # Key audit matter and significant financial statement audit risk



Audit risks

1

Management override of controls^(a)

Fraud risk related to unpredictable way override of controls may occur



Significant risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management of any company is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- Other than potential for management bias on investment estimates, we did not initially identify any specific additional risks of management override relating to this audit. However, we identified a deficiency in control during our procedures to address the risk of management override, which impacted the likelihood of a material misstatement.
- *Note: (a) Significant risk that professional standards require us to assess in all cases.*



Our response

- Our audit methodology incorporates the risk of management override as a default significant risk.
- In line with our methodology, we evaluated the design and implementation of controls over journal entries and post closing adjustments.
- A control deficiency was identified whereby amendments could be made to existing journal entries within Access Financials after approval for posting to the ledger, with no further review or approval documented. Posted journals were amended through this process in the year. Further it was identified that an expense journal was deleted from the ledger before making a payment by removing the invoice from the Creditors module within Access Financials. It was also identified that, in the period, some sales invoices to income accounts were posted to the debtors module with no system enforced secondary review.
- This finding led us to revisit our risk assessment of the journals process, including a consultation with KPMG's technical team and discussions with KPMG Forensics in the Audit.
- Additional testing was performed to assess the completeness of the general ledger data. We identified breaks in this completeness test due to amendments made to existing journals. In response, we performed risk assessment over these amended entries and assessed for additional fraud risk factors. We considered the impact of the deficiency on our audit and performed additional testing as required.
- We set high-risk criteria for specific journals to test substantively. In light of the identified control deficiency, we assessed whether the ability to amend journal entries created additional high-risk criteria.
- We screened all journal entries for high-risk attributes using KPMG Clara General Ledger Analysis.
- We identified journal entries meeting our high-risk criteria and material post close journals for testing. We tested each journals individually as part of our year-end audit process.

Audit risks (cont.)

1 Management override of controls^(a)

Fraud risk related to unpredictable way override of controls may occur



Significant risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant
- Management of any company is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.



Our response



Our findings

- Assessed the appropriateness of the accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- We identified journal entries and other adjustments meeting our high-risk criteria – our examination did not identify any inappropriate entries.
- To address the fact that the ledger system records the same individual as initiating and approving the entry for certain expense transactions, we identified a mitigating control and tested the design and implementation and operating effectiveness with no issues noted.
- We evaluated the accounting estimates involved in the valuation of unlisted investments and recoverability of deferred tax assets and did not identify any indicators of management bias. See page 10 for further discussion.
- We did not identify any significant unusual transactions.

Audit risks (cont.)

2 Valuation of unlisted investments (key audit matter)

Risk that the carrying value of unlisted investments is materially misstated



Significant risk and key audit matter

- As at 31 March 2024, 97% (2023: 96%) of the Group's total assets (by value) are investments where no quoted market price is available. Unlisted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as prices of recent orderly transactions, milestone analysis, discounted cash flows, earnings multiples, and valuing fund interest by reference to their reported net asset value.
- There is a significant risk over the judgements and estimates inherent in the valuation and therefore this is one of the key areas that our audit has focused on.
- The effect of these matters is that, as part of our risk assessment, we determined that the valuation of unlisted investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.



Our response

- **Methodology choice:** In the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines, we challenged appropriateness of the valuation basis selected.
- **Our valuations experience:** We challenged the directors on key judgements affecting investee company valuations, such as the choice of benchmark for earnings multiples, progress against milestones, credit risk assessments and use of appropriate discount rates. We compared key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of revenue or earnings based on the forecasts of the investee companies and whether these are achievable, and we obtained understanding of milestones completed during the year. Our work included consideration of events which occurred subsequent to the period end up until the date our audit report.
- **Comparing valuations:** Where a recent transaction has been used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and vouched the price to supporting documentation. We also assessed whether subsequent changes or events such as market or entity specific factors would imply a change in value.
- **Assessing transparency:** We considered the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

Key:

 Prior year  Current year

Audit risks (cont.)

2 Valuation of unlisted investments (key audit matter)

Risk that the carrying value of unlisted investments is materially misstated



Significant audit risk and key audit matter

- The factors considered in assessing which unlisted investments were subject to significant risk included the quantum of the individual investment, performance of the investment, nature of the asset held as well as the estimation uncertainty of the methodology and inputs used.



Our findings

- We have considered the controls in place over the unlisted valuation process and substantively tested the year end valuations through a combination of independent verification and challenge over key judgements and assumptions. Please refer to page 14 for control deficiency identified.
- Based on our work and challenge of management, we have concluded that the valuations of investments are acceptable. At an overall portfolio level we consider the valuations to be at the slightly optimistic area of an acceptable range (2023: slightly cautious).
- We identified one adjusted audit difference of £1.3m and unadjusted audit differences in the range of £4.4m to £7.2m. See pages 15 and 16.
- Our views on management judgements with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.
- The FRC expects management to disclose sufficient information to enable investors to understand material sources of estimation uncertainty. Disclosures should include the range of outcomes or sensitivities for those that have a significant risk of requiring material adjustment in the next year.

Key:

 Prior year  Current year

Audit risks (cont.)

3 Recoverability of debt due from group entities (key audit matter – parent company)

Risk related to recoverability of intra-group loan from the parent to subsidiary



Key audit matter (parent)

The carrying amount of the intra-group debtor balance represents 99% (2023: 99%) of the Company's total assets. The recoverability is not at a high risk of material misstatement or subject to significant judgement. However, due to its materiality in the context of the financial statement, this is considered to be an area that will have the greatest effect on our overall parent company audit.

Note: This risk is applicable to the parent only.



Our response

- **Test of detail:** We have assessed the parent company's debtor balance with reference to the subsidiary Company's balance sheet, including consideration of the net liability position in the subsidiary. We have reviewed the historic financial performance of the subsidiary company and considered its non-profitability in our assessment. We have assessed the components of the subsidiary company's net assets and considered the liquidity of underlying assets.
- **Assessing the subsidiary Company:** We have assessed the work performed on the subsidiary Company audit, and considering the results of that work, on those net assets, including assessing the liquidity of the assets and therefore the ability of the subsidiary to fund the repayment of the receivable.



Our findings

We did not identify any significant issues. We found the conclusion that there is no impairment of the intra-group debtor balance to be acceptable.

Audit risks (cont.)

4

Going Concern

Ability of the business to continue as a going concern



Other audit risk

- Management's assessment of the Group's ability to continue as a going concern involves consideration of all factors affecting the group.
- There is a risk that management's assessment of the Group's ability to continue as a going concern does not appropriately consider the impact of all external factors, including plausible but severe downside scenarios on the income and carrying value of assets.
- The risk that disclosures in the financial statements and the annual report are not adequate with regard to the effect of key risks to the financial position, performance, business model and strategy.



Our response

- We evaluated how management's risk assessment process identified business risks relating to events and conditions that may cast significant doubt on the ability to continue as a going concern.
- We evaluated any models management uses in its assessment and evaluated how the information system captures events and conditions that may cast significant doubt on ability to continue as a going concern.
- We evaluated whether management's assessment had failed to identify events or conditions that may cast significant doubt on going concern and whether the method used by management is appropriate.
- We evaluated management's assessment including the plausible but severe downside scenarios, particularly whether those downside scenarios reflect plausible external impacts on the business.
- We evaluated whether sufficient and appropriate audit evidence had been obtained to conclude whether a material uncertainty exists and the appropriateness of management's use of the going concern basis of accounting.
- We evaluated whether there was adequate support for the assumptions underlying management's assessment, including the support provided by Scottish Government, whether they are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit.



Our findings

We consider director's assessment of going concern appropriate and have not identified material uncertainties in relation to going concern.

Audit risks (cont.)

5 Administrative Expenses

Expenses may be materially misstated



Other audit risk

- Expenses could be recorded in the incorrect year (cut-off), at the incorrect amount (accuracy) or not recorded at all (completeness).



Our response

- We traced a sample of administrative expenses back to supporting documentation and to bank statements.
- We reviewed a sample of payments made post year end to identify expenses that may have been omitted in the year.
- We recalculated the accounting charge for the long-term incentive plan ('LTIP') awarded in the year after verifying the inputs to the final calculation against source documentation.



Our findings

- We concluded that staff costs and other administrative expenses are free from material misstatement.

6 Cash

Cash balances may be materially misstated



Other audit risk

- Cash balances, as reported by management, may not be complete or accurate, or the company may not have the rights to ownership of the bank accounts.



Our response

- We agreed year end cash balances recorded in the financial statements to third party confirmations received independently.
- We substantively tested the period-end balance reconciliation.



Our findings

- We concluded that cash balances are free from material misstatement

Other significant matters

Control deficiencies

We obtain an understanding of internal control to design appropriate audit procedures, but not to express an opinion on the effectiveness of the Group's internal control.

Key:

- These are significant control deficiencies which increase the likelihood and potential magnitude of a material misstatement in the financial statements. We have identified one significant control deficiency in the current year.
- These are matters of sufficient importance to note such as weaknesses which were subsequently corrected and matters that could be significant in the future if left unaddressed. We have identified one of such deficiencies in the current year.
- These are less significant weaknesses but which we considered to be of sufficient importance to merit management's attention. We have raised zero related observations in the current year.

● Controls over unlisted investments valuation

We note that the Valuation Committee review the valuation of unlisted investments and provide challenge on the assumptions and judgements which underpin the valuation of those investments. However, given the nature of unlisted investments and the subjective elements involved in determining their fair value, it is unlikely that Committee level control can operate to a sufficiently precise degree that would allow us to reduce our level of substantive audit procedures.

As the unlisted investments represent a key audit matter and significant risk, we are required to assess the design and implementation of this control, which as it is a Committee level review control is considered to be ineffective, for audit reliance purposes. We reach this conclusion as the control does not operate to a level of precision that could prevent material misstatement, given the judgement involved in the valuation of unlisted investments. This has had no impact on our audit approach.

This is a common finding, in particular in relation to unlisted investments, where the threshold to meet formal criteria for an effective management review control is high and implementation of such control may not be efficient, sustainable or practical.

Management often choose to rely primarily on competencies of those performing the controls and wider control environment, rather than on a formalised review control over investments valuations.

● Controls over journals

It was identified that amendments can be made to existing journal entries within Access Financials after they have been approved for posting to the ledger, with no further review or approval documented. Posted journals were amended through this process in the year. Further it was identified that an expense journal was deleted from the ledger before making a payment by removing the invoice from the Creditors module within Access Financials. It was also identified that, in the period, some sales invoices to income accounts were posted to the debtor module with no system enforced secondary review. We believe this represent a significant control deficiency.

Audit misstatements - corrected

Investments

	Dr/Cr	Account	£'m	£'m	Type
Overall	Dr	Unrealised gains	1.3		Factual
	Cr	Investments		1.3	

Tax and related group relief adjustments

Entity	Dr/Cr	Account	£'m	£'m	Type
SIL	Dr	Current tax	1.6		Factual
	Cr	Intercompany payable		1.6	
SISL	Dr	Intercompany receivable	1.6		
	Cr	Current tax		1.6	

Directors remuneration disclosure

Executive Director	Amount paid before correction in annual report.	Amount paid after correction in annual report.	Difference
Sarah Roughead	84,934	87,447	2,513
Al Denholm	212,089	220,000	7,911
Michael Robertson	135,090	158,930	23,840

Types of misstatement

Factual: Misstatements about which there is no doubt.

Judgemental: Differences arising from judgments of management that we consider unreasonable or inappropriate.

Audit misstatements – uncorrected

Please see summary of investments misstatements below.

Investments	Dr/Cr	Account	£'m	£'m	Type
Overall	Dr	Unrealised gains	7.5		Judgemental
	Cr	Unrealised gains		0.3	Factual
	Cr	Investment		7.2	

Audit difference based on upper end of the range of £4.4m to £7.2m as discussed on page 10.

Types of misstatement

Factual: Misstatements about which there is no doubt.

Judgemental: Differences arising from judgments of management that we consider unreasonable or inappropriate.

Wider scope reporting

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice which required us to report on the company's arrangements in the context of four dimensions:

- financial sustainability;
- financial management;
- vision, leadership and governance; and
- use of resources to improve outcomes.

Our findings are summarised on pages 17 - 20. In our assessment we took into account that the Bank is in an early stage of their operations; with certain processes and controls still evolving.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Work performed:

- Review of relevant policies;
- Inquires with the executive team;
- Review of going concern assessment prepared by the directors (ref to page 12);
- Review of current funding arrangements with the Scottish Government

Findings:

- The Bank remains reliant on the Scottish Government;
- It is intended that the Bank will become financially self-sustaining in the medium term. The Bank will achieve this by generating income from the investments it makes and by closely controlling its costs and expenses.

- The Bank has made some important steps in the period in establishing their financial sustainability, in particular continuing to grow the investment portfolio and progressing the process for obtaining FCA permissions;
- Establishing and maintaining investments pipeline is crucial for achieving sustainability and will continue to be assessed in future periods. The Bank has diversified its investment portfolio, most notably by making debt investments (which generate regular income) as well as equity.

Conclusion

- We have not identified a significant risk in relation to financial sustainability;
- Based on the work performed, we consider the arrangements in place to be effective and appropriate for the current stage of the Bank's operations.

Wider scope reporting - financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Work performed:

- Review of relevant policies;
- Inquires with the executive team;
- Review of internal audit reports.
- Walkthroughs of the finance processes relevant to reporting; and
- Audit work over annual reporting;

Findings:

- SNIB adopts a 'Financial Management policy' designed to ensure that the Bank operates with robust financial systems, processes, procedures and controls; and that the Bank complies with all relevant requirements for its financial records and reporting and a 'Financial Reporting policy'.
- During our journal's completeness testing, we identified a control deficiency in relation to financial reporting process – refer to slide 14.

The key processes in place include:

- financial planning, budgeting and forecasting;
- general ledger management and internal controls;
- treasury and cash management; and
- reporting:
 - annual reporting;
 - monthly and quarterly reporting;
 - financial reporting to Scottish Government.

Conclusion

- We have raised a significant control deficiency over general ledger management and internal controls. Other than this issue, we consider the arrangements in place to be effective and appropriate for the current stage of the Bank's operations.

Wider scope reporting – vision, leadership and governance

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Work performed:

- Reviewing the organisational structure, reporting lines and level of scrutiny within SNIB.
- Review of board and committee minutes.
- Review of relevant policies.
- Review of internal audit reports.
- Inquiries with the executive team.
- Reading the annual governance statement.

Findings

SNIB complies with the UK Corporate Governance Code in so far as it is relevant and applicable.

Section 172 statement

SNIB has also considered its duties under Section 172 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 as well as the 'Guidance on the Strategic Report' issued by the Financial Reporting Council and the UK Corporate Governance Code 2018.

Risk assessment

The bank has a risk management framework which summarises key processes and methodologies applied to identify, evaluate, mitigate and monitor and report risks.

Conclusion

- We have not identified a significant risk in relation to vision, leadership and governance.
- Based on the work performed, we consider the arrangements in place to be effective and appropriate for the current stage of the Bank's operations.

Wider scope reporting – Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Work performed:

- Review of relevant policies.
- Inquiries with the executive team.
- Review of internal audit reports.
- Walkthroughs of the relevant processes (including appropriate segregation of duties).
- Audit work over expenses.

Findings

SNIB are subject to Public Procurement law including; Procurement Reform (Scotland) Act 2014 and Procurement Regulations (Scotland) 2015 and 2016 as well as Requirements of the Scottish Public Finance Manual.

SNIB adopted a 'Procurement and Outsourcing Policy' which summarises relevant processes design to ensure compliance with the value for money.

The key controls and processes in place are:

- **Separation of duties:** In accordance with the Scottish Public Finance Manual, the Bank will ensure separation of duties:
 - in procurement and the award of contracts: Between financial / budgetary authority and procurement authority; and
 - in the purchasing cycle: Between staff who place orders, those who receive goods or services, and those who authorise payment.
- **Supplier due diligence:** Undertaking an assessment of the risks associated with a requirement through collaboration with IT/Legal and Risk teams as appropriate to identify risks associated with contracts and determine what mitigation might be required for each. Applying a robust process for supplier selection that evaluates the expertise and technical ability of the supplier to deliver the required services/goods to the Bank.
- **Effective competition and value for money:** Engaging procurement support early, avoiding distressed purchases, and ensuring a strong link between Procurement and Finance on the management of supplier costs for budgeting purposes.
- **Appropriate contractual arrangements:** Including agreements review by Governance, Legal, Risk and Compliance

Conclusion

- We have not identified a significant risk over the use of resources to improve outcomes.
- Based on the work performed, we consider the arrangements in place to be effective and appropriate for the current stage of the Bank's operations.

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Confirmation of independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the partner and audit staff is not impaired.

To the Audit Committee members

Assessment of our objectivity and independence as auditor of Scottish National Investment Bank Plc and its subsidiaries (“the Group”)

Professional ethical standards require us to provide to you at the conclusion stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP’s objectivity and independence, the threats to KPMG LLP’s independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP’s objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

We have not provided any non-audit services to the Group.

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at the date of this document we are not providing any non-audit or additional services that required to be grandfathered.

Confirmation of independence (cont.)

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Group and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

Handwritten signature of KPMG LLP in black ink.

KPMG LLP

Required communications with the Audit Committee

The findings below relate to the status at the date of this report. We will provide an update to the audit committee in due course.

Type	Response
Our draft management representation letter	<input checked="" type="checkbox"/> OK We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences	<input type="checkbox"/> X There were adjusted audit differences at the date of this report. See page 15
Unadjusted audit differences	<input type="checkbox"/> X There were unadjusted audit differences at the date of this report. See page 16,
Related parties	<input checked="" type="checkbox"/> OK There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	<input checked="" type="checkbox"/> OK There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	<input type="checkbox"/> X We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit to-date that had not previously been communicated in writing. See page 14.
Actual or suspected fraud, non-compliance with laws or regulations or illegal acts	<input checked="" type="checkbox"/> OK No actual or suspected fraud involving group or component management, employees with significant roles in group-wide internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.

Type	Response
Significant difficulties	<input checked="" type="checkbox"/> OK No significant difficulties have been encountered during the audit to-date
Modifications to auditor's report	<input checked="" type="checkbox"/> OK None.
Disagreements with management or scope limitations	<input checked="" type="checkbox"/> OK The engagement team has had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	<input checked="" type="checkbox"/> OK Our review of the draft annual report is ongoing.
Breaches of independence	<input checked="" type="checkbox"/> OK No matters to report. The engagement team and the firm have complied with relevant ethical requirements regarding independence.
Accounting practices	<input checked="" type="checkbox"/> OK Over the course of our audit, we have evaluated the appropriateness of the Group's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate following procedures to-date.
Significant matters discussed or subject to correspondence with management	<input checked="" type="checkbox"/> OK No significant matters arising from the audit were discussed, or subject to correspondence, with management.

FRC's areas of focus

The FRC released their [Annual Review of Corporate Reporting 2022/23](#) in October 2023. In addition, they have released three thematic reviews during the year should be considered when preparing reporting for the current financial period.

The reports identify where the FRC believes companies should be improving their reporting. Below is a high level summary of the key topics. We encourage management and those charged with governance to read further on those areas which are significant to the group.



Reporting on the effects of inflation and other uncertainties

This year's Annual Review of Corporate Reporting identifies that companies continue to face significant economic and geopolitical uncertainty and annual report and accounts should therefore tell a coherent story about the impacts on the business and the assumptions the company has made in preparing the financial statements.

The FRC notes that interest rate rises in response to persistent inflation, the related impact on consumer behaviour, and limited growth present a particularly challenging environment for companies. Financial reporting needs to set out the impact of these issues on their business, and the assumptions which underpin the values of assets and liabilities in financial statements. Significant changes in discount rates and future cash flows are expected as a result and they should be highlighted.

The impacts of uncertainty on companies' narrative reporting and financial statements are numerous, but the FRC sets out its clear disclosure expectations for 2023/2024:

- Disclosures about uncertainty should be sufficient to meet relevant requirements *and* for users to understand the positions taken in the financial statements.
- The strategic report should give a clear description of the risks facing the business, the impact of these risks on strategy, business model, going concern and viability, and disclosures should be cross-referenced to relevant detail in the report and accounts.
- Transparent disclosure should be provided of the nature and extent of material risks arising from financial instruments.

Preparers should take a step back to consider whether the annual report, as a whole, is clear, concise and understandable and whether additional information, beyond the requirements of the standards, is necessary to understand particular transactions, events or circumstances.



Climate-related reporting

Climate-related reporting continues to progress with the new Companies Act requirements, effective for periods commencing 6 April 2022, requiring more entities to include climate-related financial disclosures within the annual report. These are largely aligned with the Taskforce on Climate-Related Disclosures (TCFD) recommendations, but do not include the 'comply or explain' provision for items that would have a material impact on the entity.

Climate-related risks remains an area of ongoing focus for the FRC as they embed the review of these disclosures into their routine annual reviews. The FRC has highlighted that it expects companies to provide improved disclosure explaining the linkage between narrative reporting on uncertainties such as climate change, and the assumptions made in the financial statements.

In respect of TCFD disclosures, the FRC notes that sustainability reporting requirements continue to evolve and companies are still at very different stages in their reporting in this area. The FRC expect in scope entities to provide a clear statement of consistency with TCFD which explains, unambiguously, whether management considers they have given sufficient information to comply with the framework in the current year. Companies must, in any case, comply with the new mandatory requirements for disclosure of certain TCFD-aligned information.

In relation to the specific thematic on metrics and targets they highlighted five areas of improvement:

- the definition and reporting of company-specific metrics and targets, beyond headline 'net zero' statements;
- better linkage between companies' climate-related metrics and targets and the risks and opportunities to which they relate;
- the explanation of year-on-year movements in metrics and performance against targets;
- transparency about internal carbon prices, where used by companies to incentivise emission reduction; and
- better linkage between climate-related targets reported in TCFD disclosures and ESG targets disclosed in the Directors' Remuneration Report.

FRC's areas of focus (cont.)

Impairment of assets

Heightened economic uncertainty, high inflation and higher interest rates have resulted in more instances of impairment or reductions in headroom, prompting the need for more detailed disclosures under IAS 36. The FRC notes that many of the queries it has raised with companies in the past year would have been avoided by clearer, more complete disclosures.

Disclosures should provide key inputs and assumptions applied, along with relevant values and sensitivity information where impairments could arise from reasonably possible changes in assumptions.

Assumptions should be consistent with information provided elsewhere in the annual report and with the wider economic environment; where there are inconsistencies, these should be explained.

Discount rates should be consistent with the assumptions in the cash flow projections, particularly in respect of risk and the effects of inflation.

Judgements and estimates

Most of the FRC's queries related to estimation uncertainty, and often involved disclosures which either did not contain sufficient information to be useful, or which appeared inconsistent with disclosures given elsewhere.

Disclosures should explain the significant judgement and provide quantified sensitivities where there is a significant source of estimation uncertainty. This includes judgements relating to the going concern assessment and accounting for inflationary features, including the use of discount rates. Sensitivity disclosures should be meaningful for readers, remain appropriate in current circumstances, explaining significant changes in assumptions and the range of possible outcomes since the previous year.

The FRC highlights the need for disclosures to clearly distinguish between estimates with a significant risk of a material adjustment to carrying amounts within the next year, and other sources of estimation uncertainty.

Cash flow statements

Cash flow statements have again been an area where the FRC have raised many queries and it remains one of the most common causes of prior year adjustments. Most queries raised by the FRC relate to unusual or complex transactions which have not been appropriately reflected in the cash flow statement.

Companies should ensure that descriptions of cash flows are consistent with those reported elsewhere in the report and accounts, with non-cash investing and financing transactions being excluded, but disclosed elsewhere if material.

In addition, companies should ensure that cash flows are appropriately classified between operating, financing and investing, and cash flows should not be inappropriately netted. Cash and cash equivalents should comply with the relevant definitions and criteria in the standard.

Strategic report and other Companies Act 2006 matters

Strategic reports should focus not only on financial performance but should also explain significant movements in the balance sheet and cash flow statement. They should articulate the effect of principal risks and uncertainties facing the business, including economic and other risks such as inflation, rising interest rates, supply chain issues, climate-related risks and labour relations.

In addition, the FRC reminds companies that they should comply with the legal requirements for making distributions and repurchasing shares including, where relevant, the requirement to file interim accounts to support the transaction.

Financial instruments

Companies should ensure that the nature and extent of material risks arising from financial instruments (including inflation and rising interest rates), and related risk management, are adequately disclosed.

This includes disclosures being sufficient to explain the approach and significant assumptions applied in the measurement of expected credit losses, including concentrations of risk, and assessments should be reviewed and adjusted for forecast future economic conditions.

The effect of refinancing and changes to covenant arrangements should be explained, with information about covenants being provided unless the likelihood of a breach is remote.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

FRC's areas of focus (cont.)

Income taxes

Following their thematic review last year, the FRC reminds companies that the nature of evidence supporting the recognition of deferred tax assets should be disclosed, and should factor in any difficult economic environment.

Additionally, companies should ensure tax-related disclosures are consistent throughout the annual report, uncertain tax positions are adequately disclosed, and material reconciling items in the tax rate reconciliation are presented separately and appropriately described.

Provisions and contingencies

Clear descriptions of the nature and uncertainties for material provisions or contingent liabilities, the expected timeframe and the basis for estimating the probable or possible outflow should be provided.

Inputs used in measuring provisions should be consistent in the approach to incorporating inflation, and details of related assumptions should be provided.

Revenue

Where variable consideration exists, companies should provide sufficient disclosure to explain how it is estimate and constrained.

Accounting policies and relevant judgement disclosures should be provided for all significant performance obligations. Those disclosures should address in sufficient detail the timing of revenue recognition, the basis for recognising revenue over time and the methodology applied.

Lastly, the FRC reminds companies that inflationary features in contracts with customers, and the accounting for such clauses, should be adequately disclosed and clearly explained.

Presentation of financial statements and related disclosures

The FRC expects companies to disclose company-specific information to meet the overall disclosure objectives of relevant accounting standards, and not just the narrow specific disclosure requirements of individual standards. They set out a clear expectation that additional information (beyond the minimum requirements of the standards) should be included where needed.

Fair value measurement

Fair value measurement has returned this year as one of the FRC's top ten issues raised in their correspondence with companies, and this has been the topic of a [thematic review](#). Common queries raised include the omission of sensitivity disclosures and the quantification of unobservable inputs into fair value measurements.

The FRC reminds companies that they should use market participants' assumptions, rather than their own, in measuring fair value.

Thematic reviews

During the year FRC has issued Thematic reviews on the following topics:

- Climate-related metrics and targets
- IFRS 13 Fair value measurement
- IFRS 17 Insurance contracts – Interim disclosures in the first year of application

2023/24 review priorities

The FRC has indicated that its 2023/24 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

 Travel, hospitality and leisure

 Construction materials

 Retail and personal goods

 Gas, water and multi-utilities

Compliance with the UK Corporate Governance Code

We have communicated the information we believe to be relevant to the board and the audit committee, in the context of fulfilling their responsibilities under the Corporate Governance Code provisions.

Our auditor's report sets out our responsibilities in relation to reporting on certain provisions of the UK Corporate Governance Code information relevant to understanding the rationale and evidence to support our professional judgement exercised in the course of the audit and in reaching an opinion on the financial statements. Our comments on additional areas are noted on right.

Emerging & principal risks

Our review of the financial statements to determine whether the principal and emerging risks facing the company and identified by management in the Annual Report are a robust assessment of the Company.

Significant accounting policies

We consider that the accounting policies applied are appropriate in the circumstances of Scottish National Investment Bank plc. We have also reviewed the application of these policies and are not aware of any significant areas where the policies have not been properly applied.

Corporate Governance Disclosures

We are satisfied that the directors' statement of compliance with the provisions of the UK Corporate Governance Code (to the extent that we are required under the ISAs to report on that statement) and the directors' statements regarding going concern and longer-term viability are consistent with knowledge obtained during our audit.

Significant accounting estimates

We are satisfied that management's valuations of unlisted investments are acceptable and there are no indicators of associated management bias. Refer to Page 10 for further details

Risk management & internal control

We identified one significant control deficiency in financial reporting process based on the audit work performed so far. Refer pages 17 and 14.

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

■ Commitment to continuous improvement

- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

■ Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

■ Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



■ Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

■ Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

■ Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members



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