Scottish National Investment Bank PLC

Report to the Audit Committee

Consolidated financial statements for the period ended 31 March 2021

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Report Date: 2 September 2021

Introduction

To the Audit Committee of Scottish National Investment Bank plc

We are pleased to have met with you on 24 August 2021 to discuss the results of our audit of the consolidated financial statements of Scottish National Investment Bank plc ("SNIB" or the "Company") and its subsidiaries (the "Group"), as at and for the period ended 31 March 2021.

This report provides our final audit findings, including findings on the areas that were outstanding at the time of the Audit Committee meeting. This report should be read in conjunction with our audit plan and strategy report, presented on 1 June 2021.

Our audit is now complete subject to the items noted on page 6. There were no significant changes to our audit plan and strategy.

We expect to issue an unmodified Auditor's Report.

We draw your attention to the important notice on pages 3 and 4 of this report, which explains:

— The purpose of this report; and

— Limitations on work performed;

— Restrictions on distribution of this report.

Yours sincerely,

Philip Merchant

2 September 2021

How we have delivered 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 controls** 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.

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.

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 period ended 31 March 2021.

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ("the Code"). The Code sets out SNIB's responsibilities in respect of:

- Corporate governance;
- Financial statements and related reports;
- Standards of conduct for prevention and detection of fraud and error;
- Financial position; and
- Best value.

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.

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

Important notice (continued)

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

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 reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

Our audit findings

Significant audit risks — **Pages 8-11**

Risk	Risk change	Our findings
Management override of controls	No	We did not detect evidence of management override of controls from the audit work performed to date.
Valuation of unlisted investments (key accounting estimate)	No	We found the Company's valuation of unlisted investments to be acceptable.

Audit misstatements

A summary of audit misstatements is presented on page 23. All misstatements identified by us were corrected, the cumulative impact on the group's financial statements was:

		£'000	£'000
Dr	Assets	806	
Cr	Liabilities		341
Cr	P&L		465

Materiality	**£'000**
Financial statements:	
Total assets	32,840
Materiality *	820
Reporting threshold to the Audit Committee	41
Lower Directors' remuneration materiality:	
Lower materiality:	1

Lower materiality has been applied to Directors' remuneration and expenses in the Directors' remuneration report.

* Materiality communicated as per our Audit Strategy was £710k which was based on 2.5% of total assets per the draft trial balance for the period available at that time. We updated materiality based on the final total asset position.

Control deficiencies

We have not identified any significant control deficiencies.

One other control deficiency is summarised on page 11.

Our audit findings (continued)

Outstanding matters

The following items are outstanding as at the date of this Report:
- Approval of the financial statements by the board of directors;
- Receipt of the signed Management Representation Letter;
- Completion of our post balance sheet events review up to the date of sign off; and
- Completion of internal review procedures including our audit file finalisation.

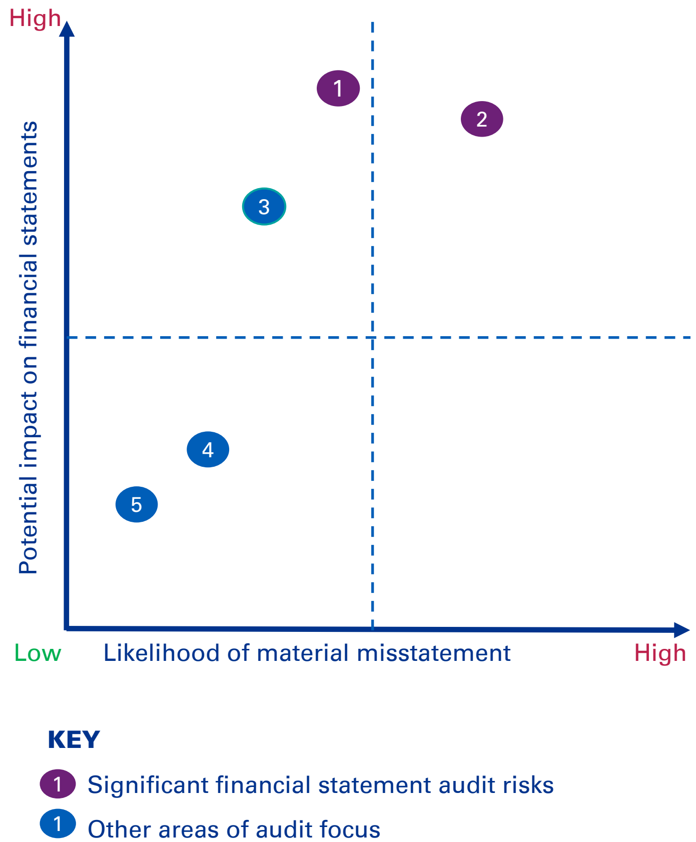
Significant risks and other areas of audit focus

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 understanding of the business obtained during acceptance and planning procedures, knowledge of the industry and the wider economic environment in which SNIB operates.

The risk map shows the identified significant risks and other areas of audit focus.

There have been no changes to our risk assessment or group scoping communicated at planning.



Significant Risks
① Management override of controls
② Valuation of unlisted investments

Other Areas of Audit Focus
③ Going concern and the impact of COVID-19
④ Expenses
⑤ Cash

Significant audit risks

1 Management override of controls*

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

The risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management 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 audit methodology incorporates the risk of management override as a default significant risk.
- In line with our methodology, we have tested the design and implementation of controls over journal entries.
- We set high risk criteria for specific journals to test substantively. If any journals meet this criteria, we audit each journal individually as part of our year-end audit process.
- We assessed the appropriateness of methods and underlying assumptions used to prepare accounting estimates.
- We assessed the appropriateness of the accounting for significant transactions that are outside the Company's normal course of business, or are otherwise unusual.

Our findings

- We have considered what would constitute 'high risk' journal entries based on our understanding of the business.
- We have identified material post-closing journals that we consider to be be 'high risk' and tested them substantively.
- We have identified one journal that met our high-risk criteria and tested it substantively. The journal was found to be appropriate.
- We did not identify any deficiencies in the design or implementation of controls over journal entries.
- We did not identify any significant unusual transactions from the audit work we have performed to date.

***Significant risk that professional standards require us to assess in all cases**

Audit risks and our audit approach (continued)

2 Valuation of unlisted investments

Risk that the carrying value of unlisted investments is materially misstated

Significant audit risk

The risk

- The Group's portfolio of unlisted investments makes up 80.7% of the total assets (based on the draft financial statements as at 31 March 2021). 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, earnings multiples and net assets. There is a significant risk over the judgement and estimates inherent in the valuation and therefore one of the key areas that our audit will focus 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 and findings

- **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 the appropriateness of the valuation basis selected;
- **Our valuations experience:** We challenged management on key judgements affecting investee company valuations, such as the choice of benchmark for earnings multiples. 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 plans of the investee companies and whether these are achievable. Our work included consideration of events which occur subsequent to the period end up until the date our audit report;
- **Comparing valuations:** Where a recent transaction is used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and whether it is considered to be on an arm's length basis and suitable as an input into a valuation;
- **Our Corporate Finance expertise:** Based on our assessment of the portfolio we have decided not to formally engage corporate finance specialists.
- **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.

Based on our completed audit procedures, we have not identified any audit differences. We consider the valuations, on the whole, to be towards the higher end of an acceptable range. Refer to pages 10 and 11 for further detail.

Valuation of unlisted investments

Asset class

Unlisted investments

Current year

Our view of management estimate

Cautious | Balanced | Optimistic

Balance £mil

26.5

Needs improvement | Proportionate | Best practice

We have concluded based on our work to date and discussion with the Audit Committee, that the valuations on the whole are acceptable. We have not raised any proposed judgemental audit differences, meaning we believe that each individual valuation to be within an acceptable range.

We consider the valuations, on the whole, to be towards the higher end of an acceptable range based on our assessment of valuations of the two investments held by SNIB as at period end.

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.

Disclosures – additional commentary

The FRC expects management to disclose sufficient information to enable investors to understand material sources of estimation uncertainty and have noted their wider disappointment at the level of challenge they received from some companies on the need to improve disclosures. Disclosures should include the range of outcomes or sensitivities for those that have a significant risk of requiring material adjustment in the next year.

Following our initial review of the financial statements we have recommended to enhance other price risk disclosures to reflect the inherently high estimation uncertainty around valuation of unlisted investments. Management have revised the disclosures.

We concluded that the revised disclosure is proportionate but limited by commerciality given the portfolio of two investments. Management recognise these disclosures will be enhanced as the portfolio grows.

Valuation of unlisted investments (continued)

Control Deficiency: 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, the unique characteristics of each, no control can operate to a sufficiently precise degree that would allow us to reduce our level of substantive audit procedures.

We therefore are required to assess the design and implementation of this review control as being ineffective, as directed by auditing standards and our audit methodology as we are not able to rely on this control to mitigate the associated significant audit risk. 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 are too 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.

Audit risks and our audit approach (continued)

3 Going concern

Ability of the business to continue as a going concern

Other areas of audit focus

The risk

- Management's assessment of the Group's ability to continue as a going concern involves consideration of all factors affecting the Group, including the impact of COVID-19.
- 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 the COVID-19 pandemic, including plausible but severe downside scenarios on the dividend income of the Company and carrying value of assets.
- The risk that disclosures in the financial statement and the annual report are not adequate with regard to the effect of COVID-19 risks on the Company's financial position, performance, business model and strategy.

Our response and our findings

- 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 assessed management's going concern assessment including the plausible but severe downside scenarios particularly whether those downside scenarios reflect plausible impacts of COVID-19 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 (or otherwise) of the going concern basis of accounting;
- We evaluated whether there was adequate support for the assumptions underlying management's assessment, whether they are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit; and
- We challenged management's plans for future actions, and verify the reliability and relevance of data used. We determined whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible.

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

Audit risks and our audit approach (continued)

4 Expenses

Expenses may be materially misstated

Other areas of audit focus

The risk

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

Our response and findings

- We traced a sample of administrative expenses and staff costs transactions back to the supporting documentation and to bank statements.
- We reviewed a sample of payments made post period end to identify expenses that may have been omitted in the period.
- Our work identified 3 misstatements which were subsequently corrected by management. Refer to page 23 for a summary of corrected misstatements, the three misstatements relating to expenses were corrected by the first journal on page 23.

Audit risks and our audit approach (continued)

5 Cash

Cash balances may be materially misstated

Other areas of audit focus

The 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 and findings

- All period-end cash balances recorded in the financial statements were agreed to third party confirmations received independently.
- We tested controls over bank reconciliations.
- Our work identified 3 misstatements which were subsequently corrected by management. Refer to page 23 for a summary of corrected misstatements.

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;
- Governance and transparency, and
- Value for Money.

Our findings are summarised on slides 15-18. In our assessment we took into account that the Bank is in an early stage of their operations; with certain processes and controls still in development or implementation phase. We recognise the progress the Bank has made in addressing the four dimensions.

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:

- Interviews with the executive team;
- Review of going concern assessment prepared by the directors (ref to page 12);
- Audit work over budgets and cashflow forecasts used in the going concern assessment;
- Review of current funding arrangements with the Scottish Government

Findings:

- The Bank is at an early stage of their development and are fully reliant on 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 have made some important steps in the period in establishing their financial sustainability, in particular initiating the process for obtaining FCA permissions;
- Establishing and maintaining investments pipeline is crucial for achieving sustainability and will be assessed in future periods.

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 early 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;
- Interviews with the executive team;
- Walkthroughs of the finance processes relevant to reporting;
- Audit work over annual reporting;
- Audit work over budgets and cashflow forecasts used in the going concern assessment.

Findings

SNIB adopted 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"

The key processes in place include:

- Financial planning, budgeting and forecasting;
- General ledger management and internal controls;
- Treasury and cash management.
- Reporting:
    - Annual reporting;
    - Monthly and quarterly reporting;
    - Financial reporting to Scottish Government.

Conclusions:

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

Wider scope reporting - Governance and transparency

Governance and transparency 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;
- Interviews with the executive team;
- Reading the annual governance statement;
- Consideration of scrutiny over key risks.

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 2016.

Gender pay gap

Gender pay gap legislation applies for the UK private sector companies and requires pay comparisons be made between the contractual pay of men and women including base salary, paid leave, pay allowances, shift pay and on-call and standby payments. SNIB has adopted the legislation for transparency and therefore disclose a gender pay gap in line with the private sector calculation but using the two-year frequency of Public Sector Equality Duties (PSED) reporting.

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.

Conclusions:

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

Wider scope reporting – Value for money

Value for money is concerned with using resources effectively and continually improving services.

Work performed:

- Review of relevant policies;
- Interviews with the executive team;
- 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 VfM principle.

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
  - In the purchasing cycle: Between staff who place orders, those who receive goods or services, and those who authorise payment.
- **Supplier Due Diligence and Supplier Monitoring.** Undertaking an assessment of the risks associated with the proposed supplier, service/goods to be provided and the use of these services by the Bank. Thereafter reviewing and updating supplier due diligence on an annual basis.
- **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**

Conclusions:

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

Appendix

Contents

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 engagement partner and audit staff is not impaired.

To the Audit Committee

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 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

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

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

KPMG LLP

KPMG LLP

Required communications with the Audit Committee

Type	Response
Our draft management representation letter	OK — We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the period ended 31 March 2021.
Adjusted audit differences	OK — There were adjusted audit differences in relation to cash and expenses- refer to page 23 for further detail.
Unadjusted audit differences	OK — No unadjusted audit differences have been identified.
Related parties	OK — There were no significant matters that arose during the audit in connection with the entity's related parties, subject to receipt of a complete and accurate related party listing.
Other matters warranting attention by the Audit Committee	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	OK — No significant control deficiencies have been identified. One other control deficiency in relation to the review control within the valuation of unlisted investments process as reported on page 11.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK — No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

Type	Response
Significant difficulties	OK — No significant difficulties were encountered during the audit.
Modifications to auditor's report	OK — None.
Disagreements with management or scope limitations	OK — The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK — No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	OK — No matters to report. The engagement team and others in the firm have complied with relevant ethical requirements regarding independence.
Accounting practices	OK — Over the course of our audit, we have evaluated the appropriateness of the Company's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspond-dence with management	OK — The significant matters arising from the audit, such as delays to the finalisation due to additional information requirements for unlisted investments were discussed with management.

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 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 below.

Principal risks

We have shared our recommendations in relation to principal and emerging risks disclosures in the annual report.

We believe that the principal risks facing the company and identified by management in the Annual Report are a robust assessment of the Company. The disclosure is proportionate to the early stage of the Bank's operations but we expect these to be expanded in future years.

Significant accounting policies

We consider that the accounting policies applied are appropriate in the circumstances of SNIB 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

Longer term viability

The Company's statement of compliance properly reflects the Company's compliance with the provisions of the 2018 Code and the directors' statements regarding going concern and longer-term viability are consistent with knowledge obtained during our audit.

Significant accounting estimates

A number of the assumptions in the valuation of unquoted investments are highly judgemental. These estimates are supported by managements valuation governance process.

Risk management and internal control

We are satisfied that there are no significant deficiencies in internal control based on the audit work performed so far.

Corrected audit misstatements - Group

Three expenses in the total amount £54k related to the next reporting period were recognised in the current year. The management posted an adjustment to reduce expense in the period and recognise a corresponding prepayment:

			£'000	£'000
SISL	Dr	Prepayments	54	
	Cr	Expenses		54

Management had recorded a post year end payment run through the period end cash and creditor balance. The management posted the following adjustments:

SISL	Dr	Cash	152	
	Dr	Intercompany debtor		600
	Cr	Creditors		752
SIL	Dr	Intercompany debtor	200	
	Cr	Cash		200
SNIB	Dr	Cash	800	
	Cr	Intercompany creditor		800

Deferred tax liability in the group accounts was not reduced by the amount of tax on losses incurred by SISL. Correcting journal posted by the management was:

Group	Dr	Deferred tax liability	411	
	Cr	Tax Expense		411

The total impact of the adjustments above on the group is:

Dr	Cash	752	
Dr	Prepayments	54	
Cr	Expenses		54
Cr	Creditors (incl. DTL)		341
Cr	Tax expense		411

SISL	Scottish Investments Services Limited
SIL	Scottish Investments Limited
SNIB	Scottish National Investment Bank plc

Corrected audit misstatements - Parent

Intercompany debtor to SIL was classified as a current asset on the SNIB plc standalone balance sheet. The debtor is repayable on demand, however SNIB have no intention to request repayment in short term and are not expecting to realise this asset within 12 months of the balance sheet date. A correcting journal was posted to reclass this balance into non-current assets.

			£'000	£'000
SNIB plc (parent accounts)	Dr	Trade and other receivables – non-current	22,873	
	Cr	Trade and other receivables – current		22,873

SISL Scottish Investments Services Limited
SIL Scottish Investments Limited
SNIB Scottish National Investment Bank plc

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.

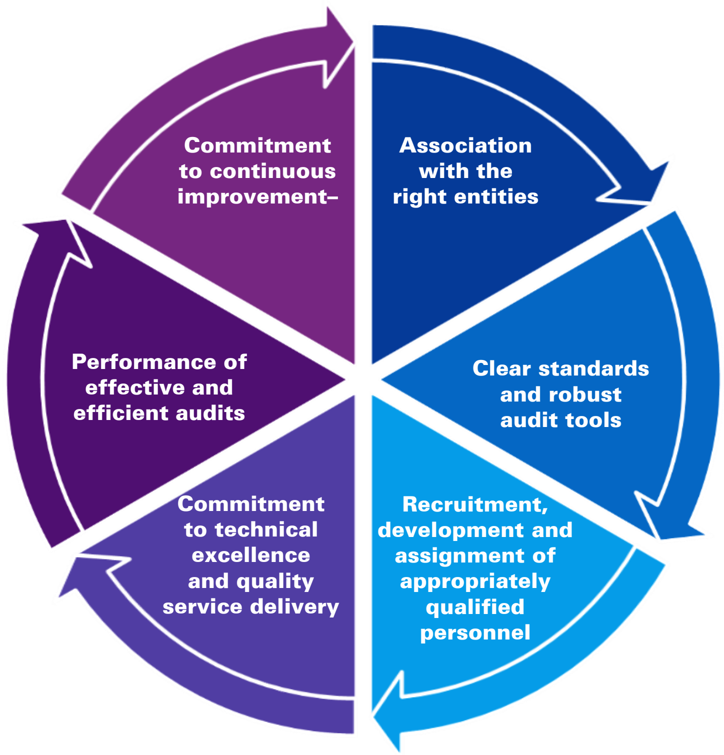
To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

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.

- 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

- 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

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



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

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

- 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 and specialists