

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

**MINUTE OF THE MEETING HELD ON TUESDAY 23 SEPTEMBER 2020 AT 0900
BY TELECONFERENCE**

PRESENT Donald MacRae (Chair)
Angus Campbell
Belinda Oldfield (from 0910)
Calum Ross

IN ATTENDANCE:

Charlotte Wright	Chief Executive
Carroll Buxton	Deputy Chief Executive
Sandra Dunbar	Director of Business Improvement and Internal Audit (BIIA)
Nick Kenton	Director of Finance and Corporate Services
Allison Rice	Team Leader, Sponsorship and Better Regulation, Scottish Government
Gordon Smail	Audit Director, Performance Audit and Best Value, Audit Scotland
Maggie Bruce	Senior Audit Manager, Audit Scotland
Chris Roberts	Head of Corporate and Media Relations
Louise Macmillan	Compliance and Risk Manager
Douglas Cowan	Director of Communities and Place, item 2.1
Elaine Hanton	Interim Project Lead, Cairngorm, Item 2.1
David Oxley	Director of Business Growth, items 2.2b, 2.3
Eunice McAdam	Partner, Saffery Champness, item 3.2
Andrew Jenkins	Head of Financial Services, items 3.3, 3.4
Paul Clark	Chief Information Officer, EIS, item 4.1

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting. There were no apologies. However, connectivity problems were making it difficult for Belinda Oldfield to join the meeting.

1.2 Declarations of interest

Nick Kenton noted that he is a director of both Wave Energy Scotland and HIE Ventures, which were the subject of item 3.2b. It was agreed that this did not present a conflict in itself. However, if specific issues that did present a conflict required to be discussed, Mr Kenton would leave the meeting.

1.3 To approve the minute of the Risk and Assurance Committee meeting held on 11 August 2020

The minute was approved.

1.4 Matters arising from the Risk and Assurance Committee minute and action note from the meeting of 11 August 2020

Updates were provided on four matters arising from the minute of the Risk and Assurance Committee:

1.4a Wave Energy Scotland

The Chair asked if progress had been made regarding future budget provision for Wave Energy Scotland from the Scottish Government. The Director of Finance and Corporate Services noted that a business plan for WES has been provided to the government and the WES Managing Director was in dialogue with the government Energy Team. Scottish Government had responded positively and, as a result, HIE Leadership Team and WES Directors considered this assurance to be reasonable.

Belinda Oldfield joined the meeting at 0910.

1.4b Orkney Research and Innovation Campus (ORIC)

The Chief Executive confirmed that a meeting was planned with representatives of ORIC and Orkney Islands Council to clarify the roles of the partners and within the organisation itself. It was agreed that the Committee would be informed of the outcome of this meeting.

1.4c Assurance plan

The Director of Business Improvement and Internal Audit confirmed that a review of the budget setting process had been added to the HIE assurance plan.

1.4d EIS Partnership Board

The Director of Finance and Corporate Services reported that EY had, as planned, presented a service transition report to the EIS Partnership Board, following which individual meetings had been held with each of the partner organisations involved in the present shared services arrangement through which EIS provides a range of information services and support. The Chair asked for progress to be reported to the next meeting of the Committee.

1.5 Matters arising from the HIE Board meeting held on 25 August 2020

There were no matters arising from the HIE Board meeting on 25 August that would not be covered by items on today's agenda.

2 CURRENT AND EMERGING ISSUES **CÙISEAN LÀITHEIL**

2.1 Cairngorm Mountain update

Douglas Cowan and Elaine Hanton joined the meeting.

The Director of Business Improvement and Internal Audit (BIIA) reported that, following Board endorsement of the Cairngorm Mountain full business case on 25 August 2020, and some refinements to wording, HIE had received written confirmation from the Scottish Government that it had approved the business case and funding. This would cover the next phase of activity at Cairngorm Mountain, including funicular solution; operating company funding, and other associated high priority capital investments.

On capital costs, it had been agreed that HIE would contribute the £8.5m proceeds from the sale of the Centre for Health Science and an annual spend of £300,000, while the Scottish Government would provide £10.16m as additional CDEL/grant-in-aid. On revenue costs, it was noted that the business case included a range with a maximum requirement for 2020-21 of £3m, and that HIE was currently liaising with the Scottish Government and had secured in principle funding. Regular updates would be provided to the Risk and Assurance Committee and the HIE Board. Confirmation had also been received that the Scottish Government would provide in principle cover for revenue funding for 2021-22 and beyond, subject to future budget prioritisation.

The Director of BIIA confirmed that HIE was therefore in a position to provide funding assurance to operating company Cairngorm Mountain (Scotland) Ltd, which is a subsidiary of HIE, and that this had been agreed by Leadership Team, once the reinstatement contract had been concluded.

The Director of Communities and Place provided an update on contractual negotiations with Balfour Beatty, who had been appointed through the Scape framework as contractor for the funicular reinstatement works. While some issues had required detailed discussion to achieve resolution, good progress had been made and the director was confident a successful conclusion would be reached shortly.

Paragraph withheld as disclosure at this time could harm the effective conduct of public affairs

In discussion, the Committee noted that the Scottish Government's annual comprehensive spending review was yet to take place, and were satisfied that the level of assurance provided by the Government was as much as could be expected at this time.

The Scottish Government Team Leader, Sponsorship and Better Regulation, informed the Committee that communications planning was under way with HIE and an announcement on the outcome of the business case would be made by the Cabinet Secretary for Rural Economy and Tourism shortly.

The Committee welcomed the update and the Chair thanked all the HIE and government staff who were involved in this complex project.

Douglas Cowan and Elaine Hanton left the meeting.

2.2 Space updates

2.2a Space programme

The Director of BIIA informed the Committee that HIE had commissioned external support from two companies, RSM UK and SpaceTec, to carry out a review that would inform decision-making on space opportunities for the region. Review work was now under way with three interdependent components: wider market review, regional projects, and Space Hub Sutherland. A benefits realisation plan for space would be produced and a steering group had been set up, chaired by the HIE Chief Executive or Deputy Chief Executive, and including representatives from the Scottish Government and the UK Space Agency.

In support of this exercise, the Minister for Trade, Investment and Innovation had written to all Scottish spaceports, requesting their participation, providing assurance on confidentiality and confirming that HIE would share outcomes, as appropriate, to benefit the sector as a whole.

HIE had also introduced a new internal protocol to respect commercial sensitivities and ensure proper separation between different areas of interest within the organisation while enabling the wider strategic opportunity to be pursued effectively.

2.2b Space Hub Sutherland

David Oxley joined the meeting.

The Director of Business Growth presented an update on progress with HIE's plans to develop a vertical launch site for satellites, Space Hub Sutherland, including details of the process being followed to support options appraisal, due diligence and full business case preparation.

Following the Highland Council's decision to grant planning permission, with conditions, in August, HIE had immediately submitted an application to the Scottish Land Court. A public notice period was currently under way and would end on 25 September.

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A third Scottish Government gateway review had been carried out in September, resulting in a green / amber rating, indicating that success was probable, although actions were required. This was the project's strongest gateway review score to date, and reflected steps that HIE had taken to strengthen the team and governance arrangements.

Paragraph redacted owing to commercial sensitivity.

The update also included a summary of the top ten risks associated with the project. It was noted that, while the overall risk level remains very high, progress was being made and the aggregate risk score had reduced. Risks would be reviewed as part of the due diligence exercise, and updates provided to the Board.

The Committee welcomed the progress being made and emphasised the importance of the present due diligence exercise.

2.3 Creative industries update

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David Oxley left the meeting.

Carroll Buxton left the meeting due to another commitment.

2.4 Court case update

The Director of BIIA provided an update on the current court case concerning a project supported by HIE at Nigg. The Inner House of the Court of Session had issued a ruling in HIE's favour on 30 June, refusing an appeal from the pursuers and stating that it saw no need to refer the case to the Court of Justice of the European Union.

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3 ACCOUNTS-RELATED **STUTHAN CUNNTASACHAIL**

3.1 Audit Scotland – annual report 2019-20

3.1a Audit Scotland covering letter and letter of representation

The Audit Director, Performance Audit and Best Value, Audit Scotland, reported that the external auditor's work on HIE's 2019-20 annual report and accounts was now substantially complete. Subject to

the satisfactory conclusion of some outstanding matters and receipt of a revised set of the annual report and accounts for final review, it was anticipated that unqualified audit opinions could be issued today in the independent auditor's report.

Material uncertainties caused by COVID-19 and declared in the valuation report for land and buildings were noted in an 'Emphasis of Matter' paragraph. However, such uncertainties were prevalent across a range of audits in the present year and did not require the auditor's opinion to be modified. The Audit Director asked for assurance that there had been no instances of any actual, suspected or alleged fraud since the date of the financial statements, and this was confirmed by HIE's accountable officer.

3.1b Draft annual audit report

The Audit Director, Performance Audit and Best Value, Audit Scotland, presented the 2019-20 draft annual audit report for Highlands and Islands Enterprise.

Significant findings were recorded against eight specific issues:

- the impact of COVID-19 on valuation of land and buildings owned by HIE;
- an outstanding VAT liability that was expected to be settled in 2020-21;
- provision for the estimated cost of reinstating the Cairngorm funicular railway;
- updated pensions disclosures (IAS 19);
- expenditure on Space Hub Sutherland
- classification of provision for reinstatement of the Cairngorm funicular;
- classification of IAS19 accounting adjustment, and
- classification of non-current assets.

Governance in HIE was considered appropriate. It was noted that budget monitoring and financial controls were being applied effectively and that a previously noted capacity issue in HIE's Finance team had been addressed. Steps were being taken to ensure public access to Board minutes, although further work was required. The performance report section of the annual report and accounts had been improved significantly.

The Audit Director noted that the accounts timetable had been extended by around six weeks owing to pressures caused by COVID-19. He highlighted the effectiveness of positive working arrangements between Audit Scotland and HIE, and thanked colleagues in both organisations for excellent work in preparing the annual report and accounts. The Committee Chair echoed these sentiments.

The Committee highlighted the eight issues noted above and sought assurance that HIE had sufficient resource and expertise to address these. The Director of Finance and Corporate Services confirmed this was the case, following strengthening of the Finance team, and noted that the VAT issue was now largely resolved.

The Chief Executive noted that complex issues such as these noted above were a reflection of HIE's strong levels of ambition and risk appetite, and would remain a feature of the agency's work in future years. Capacity in the Finance team would be kept under review, particularly as HIE would be seeking to strengthen further the links between Finance and operational teams.

The Committee welcomed the report. It was noted that HIE and Audit Scotland planned to review how the process to prepare the annual report and accounts had operated this year, and would present findings to a future meeting.

It was also noted that the 2020-21 audit would again be conducted by Audit Scotland.

3.2 Group companies audit report

Eunice McAdam joined the meeting.

Saffery Champness presented group companies audit reports for Orkney Research and Innovation Campus, which is a limited liability partnership between HIE and Orkney Islands Council, and for HIE subsidiaries Wave Energy Scotland, HIE Ventures Ltd, and Cairngorm Mountain Scotland Ltd.

3.2a Orkney Research and Innovation Campus LLP

The audit for the year ended 31 March 2020 had been completed subject to post balance sheet review procedures, review of going concern, receipt of management representation letter and approval of the financial statements. An unmodified audit opinion was anticipated.

Going concern funding was identified as the key risk, as a result of COVID-19. It was also recommended that property valuation, which was at risk of significant write down for the second successive year, should be kept under close review, with consideration being given to adjusting the fair value.

Paragraph withheld owing to commercial sensitivity.

3.2b Wave Energy Scotland Ltd and HIE Ventures Ltd

Saffery Champness anticipated issuing an unmodified audit opinion for both Wave Energy Scotland Ltd (WES) and HIE Ventures Ltd.

Paragraph withheld owing to commercial sensitivity.

3.2c Cairngorm Mountain (Scotland) Ltd

It was expected that an unmodified opinion would be issued within the next few weeks, subject to the company preparing cash flow forecasts and a formal paper to support use of the going concern basis under current economic conditions, including the impacts of COVID-19.

The Committee noted that this issue was being addressed by both CMSL and HIE. In discussion, Audit Scotland confirmed that correspondence had taken place with Saffery Champness regarding this matter and there was no material impact on the HIE accounts.

The Committee noted the three reports from Saffery Champness and acknowledged the additional challenges that had been presented this year by the need for auditing work to be conducted remotely. It was agreed that lessons learned from the experience of remote working would be gathered and reported to a future meeting of the Committee.

Eunice McAdam left the meeting.

Carroll Buxton rejoined the meeting.

3.3 HIE annual report and accounts 2019-20

Andrew Jenkins joined the meeting.

The Director of Finance and Corporate Services presented version two of HIE's 2019-20 annual report and accounts, version one having been presented to the Risk and Assurance Committee on 11 August. Changes between the two versions were highlighted and the revised version had been reviewed by Audit Scotland.

Audit Scotland proposed that an additional paragraph be included in the Accountable Officer's letter of representation in relation to COVID-19. This was in line with Audit Scotland's work with other organisations and the following wording was agreed: 'I have reviewed the impact of COVID-19 on the financial statements and have reflected on the impact on global financial markets in Note 1 'Critical estimates and judgements' in the financial statements. I am satisfied that all reasonable action has been taken to identify the impact of Covid 19 on the fair value of land and buildings and this has been disclosed appropriately in the financial statements.'

Corrections were highlighted in the list of board members and noted for amendment. The Committee confirmed they were content with the updated version of the annual report and accounts, and with the minor changes that had been highlighted to be agreed by HIE staff.

3.4 Proposed final certificate of assurance

The Committee agreed the wording of the final certificate of assurance. Changes from the interim certificate that had been reviewed previously included references to COVID-19, Cairngorm and budgetary challenges. The Chief Executive confirmed she was content for these points to be included in the revised wording for the final certificate.

Andrew Jenkins left the meeting.

4 PLANNED ACTIVITY **GNIOMHACHDAN PLANAICHTE**

4.1 Information systems update: HIE Cyber maturity review final report

Paul Clark joined the meeting.

The Chief Information Officer, EIS, presented the final report of a cyber maturity review of HIE. This was one of a series of reviews carried out across the partners involved with EIS in the shared services arrangement for IT services. It aimed to understand current cyber maturity and identify potential security gaps and areas for improvement, benchmarking against an international ISO standard for information security. In addition to reviewing systems and processes managed by EIS, two systems that were directly under HIE control were also examined: the Coda finance system and Open HR human resources. Both of these had been independently assessed by Scott Moncrieff.

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It was noted that business continuity had become a live issue following the introduction of COVID-19 guidance on working from home in March 2020, and that HIE had managed this transition well. In response to a question, the Director of Finance and Corporate Services informed the Committee that a procurement exercise was under way for data protection services. This would include filling the post of data protection officer which was currently vacant and being covered by the director.

The Committee noted this and asked for an update at the next meeting, including both the present status and a plan for future actions. It was also requested that a report on HIE's approach to business continuity planning be prepared, either as part of this update, or to be delivered at a future meeting.

Paul Clark left the meeting.

4.2 Risk register

The Director of BIIA presented the current HIE corporate risk register, along with a summary of the movement of risk scores over time. In addition to individual risk updates, the register had been refocused to highlight the impact of major themes affecting the economy, including COVID-19 and Brexit.

Following discussion, it was agreed that risks associated with Brexit should be made more visible and consideration given to the overall Brexit risk score. The accuracy of a reference to the Scottish Futures Trust in relation to Space Hub Sutherland was questioned and will be checked.

The Committee noted that cyber security carried a risk score of 20, signifying high risk. The Director of Finance and Corporate Services explained that this was partly driven by the current use of a legacy system (Cognos) that would be replaced in due course and in the meantime extended service support would be sought from the supplier to ensure vulnerabilities continue to be addressed. The score would also be reduced once HIE achieved Cyber Essentials Plus accreditation, which it hoped to do in October.

4.3 Any other business

4.3a Accounts

The Chief Executive confirmed that she was content to sign the annual accounts, subject to minor amendments that had been discussed at today's meeting, and would let the Committee know when this had been done.

4.3b Meeting arrangements

The Chair asked whether HIE was considering alternative platforms to host virtual events, noting that today's meeting had been subject to some communications difficulties. The Chief Executive confirmed that testing was about to begin on Microsoft Teams, with the intention to roll this out as soon as possible.

4.4 Date of next meeting

The next meeting of the committee is due to take place on Tuesday 1 December 2020.

Chris Roberts
Head of Corporate and Media Relations
23 September 2020