

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

MINUTE OF THE MEETING HELD ON 2 MARCH 2021 AT 0900 BY TELECONFERENCE

PRESENT: Donald MacRae (*Chair*)
Angus Campbell
Belinda Oldfield
Calum Ross

IN ATTENDANCE:

Charlotte Wright	Chief Executive
Carroll Buxton	Deputy Chief Executive
Nick Kenton	Director of Finance and Corporate Services
Sandra Dunbar	Director of Business Improvement and Internal Audit
Adrian Kitson	Head of Executive Support
Louise Macmillan	Compliance and Risk Manager
Gordon Smail	Audit Director, Performance Audit and Best Value, Audit Scotland
Maggie Bruce	Senior Audit Manager, Audit Scotland
Andrew Carton	Team Leader of Sponsorship, Scottish Government
Martin Johnson	Director of Strategy and Regional Economy, items 2.1a, 2.3a
David Oxley	Director of Business Growth, item 2.1b, 2.4
Mark Wilcock	Head of Facilities Management, item 2.5
Jeff Foot	Head of External Funding and Investment, item 3.4
Claire Murray	Head of EIS Cyber Security, items 4.1a, 4.1b
Chris Knight	Information Assurance Manager – EIS, items 4.1a, 4.1b

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting, noting that there was a busy agenda, and welcomed the new format of papers submitted to the Committee to include the introduction of a context paper for each.

Apologies were received from Jessie Laurie, Head of Enterprise Sponsorship, Scottish Government.

1.2 Declarations of interest

Calum Ross noted an interest in relation to item 2.2a Covid Funds Update as an owner of a business account managed by HIE that has applied for digital enablement grants. The interest was noted and it was agreed that Calum would not be required to leave the meeting during discussion on this item.

1.3 Minute of Risk and Assurance Committee meeting held on 1 December 2020

The minute of the Risk and Assurance meeting held on 1 December 2020 was approved.

1.4 Matters arising from the Risk and Assurance Committee meeting and action note from the meeting of 1 December 2020

It was agreed that all matters arising from the Risk and Assurance Committee meeting on 1 December 2020 were covered by items on today's agenda.

1.5 Matters arising from the HIE Board meetings held on 15 December 2020 and 23 February 2021

1.5a Cairngorm Mountain

It was noted that the latest version of the masterplan was being presented to the CNPA Board later in the month. With regards to legal cases, one has been sisted with the other currently in the adjustment phase. It is likely that both will progress to court early in the new financial year. There is a proposal to resurrect the HIE Board Cairngorm sub-group to oversee matters relating to Cairngorm, acting in an advisory capacity only.

2 CURRENT AND EMERGING ISSUES **CÙISEAN LÀITHEIL**

2.1 Space updates

2.1a Space programme

Martin Johnson joined the meeting.

The Director of Strategy and Regional Economy and the Director of Business Improvement and Internal Audit provided an update on the approach to Space programme activity being undertaken by HIE. Following work to review the potential benefits to the HIE region from the developing Space sector, HIE is reviewing its approach to the Space Programme governance. This remains work in progress, with the aim of ensuring that there is a coordinated programme approach for the region, aligned to a Scottish-wide strategy. This builds on the work HIE had commissioned from RSM and SpaceTec to review the market, potential economic benefits and the status of the sector in the region.

Key areas have been updated to reflect the changes to the region-wide sectoral opportunity and the need for cross-organisation approaches to projects and wider market and sectoral context and knowledge. This will be further updated as HIE publishes the outputs of the current reviews and will also ensure that resources are aligned to the current organisational change activity.

The Committee asked if there was work with the Communities team in this area. It was confirmed that there was good community buy-in and close working with other organisations in Machrihanish, and that a group had been set-up with the local authority to work with Shetland Space Centre.

[Paragraph removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].

2.1 b Space Hub Sutherland – update on risk

David Oxley joined the meeting for item 2.1b and item 2.4 only.

The Director of Business Growth provided an update on Space Hub Sutherland, outlining that it is at a critical point in its development, with good progress made in many areas. *[Sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].*

Project risks are managed by use of a Risk Register and good progress had been made initially on risk management by closure of lower level risks. Further, obtaining planning approval for the project following confirmation of approval from Scottish Government in August 2020 closed a number of risks further reducing the overall risk score. Progress on the 'Red' risk has been more limited since in many cases the mitigations are not at HIE's hand and require support of external stakeholders.

[Paragraph removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].

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[Paragraph removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].

[Paragraph removed in the interests of the effective conduct of public affairs].

The Committee thanked the Director for the update and recognised that the Space Hub Sutherland team were doing all that could be done to manage an extremely complex project as effectively as possible.

Martin Johnson left the meeting.

2.2 Covid updates

2.2a Covid funds update

The Director of Business Improvement and Internal Audit presented a paper detailing the approach taken by HIE, an overview of the extent of activity undertaken and the context to the changed risk profile of HIE activity in 2020-21. Significant in-year changes took place in response to the COVID impact on the economy of the Highlands and Islands. This included changes in how HIE's GIA budget was used and HIE being asked to have a role in the delivery of national funds. This resulted in significant additional funding being made available to businesses and communities in the HIE area. Making these funds available in a way which met the fund objectives and applicant needs required changes to normal internal control arrangements. The risk profile of each fund was considered on a case-by-case basis. HIE sought to ensure risks were identified and understood and where mitigations were not put in place that this was clear. The nature of the funds means that there is generally an increased risk profile.

Throughout the year, HIE had sought to learn lessons and inform the design and delivery of subsequent funds. The agency will also ensure that the wider lessons are used to inform future delivery process and models to ensure the economic development needs of the region are met. There will be some independent review of funds to include a joined-up approach with Audit Scotland to prevent any duplication in this area.

The Committee asked if there was any risk that projected spend against approvals would not be achieved and if there was capacity to carry forward funding into 2021/22. It was confirmed that there were processes in place to track progress on projects, with project managers actively engaging with applicants. It was also confirmed that for most of the funds there was no capacity to carry forward to 2021/22.

The Chief Executive highlighted the complexity of delivering the funds. The lessons learned on the journey had been enormously beneficial around how to deliver in future and how to deliver at volume. Taking staff off core duties to deliver had been challenging alongside business as usual activity, however HIE decision-making processes and systems had proved to be robust.

The Audit Director, Performance Audit and Best Value, Audit Scotland noted that this was a big area and a major feature of public funding in-year that was being tracked nationally across Scotland and Audit Scotland were considering their approach to how they reviewed this activity. It will be important how HIE tells its story in the annual report noting the inherent risk and how HIE built in appropriate governance arrangements.

2.2 b Year-end payment arrangements

The Director of Business Improvement and Internal Audit provided a brief update on the arrangements in place for year-end payments. Reflecting on the previous year-end, when changes to ways of working and internal controls were quickly stood-up allowing HIE to deal effectively with year-end payments and working from home, a planned approach has been agreed upfront for this year. A small working group had considered options for payment release, noting any challenges and risks, and made proposals and recommendations. The group focused on the processing of claims and invoices for payment and sought to consider what challenges were experienced or anticipated; any opportunities that had been noted, and what worked well with current processes. It also sought to minimise the risk to HIE as a result of any changes proposed.

The Committee commented that it was helpful to see the arrangements, highlighting that HIE's approach to tackling the challenges of Covid-19 had accelerated the advancement of some business transformation objectives which can help improve business process, for example use of electronic signatures, and these would now form part of processes moving forward. The Committee noted the paper and the satisfactory arrangements in place.

2.3 Brexit implications

2.3a Brexit general update

Martin Johnson joined the meeting.

The Director of Strategy and Regional Development provided an update on the current understanding of implications arising from the UK-EU Trade Deal at the end of 2020, and HIE's role. Highlighting three broad themes for awareness and confirming that HIE is visibly engaged with key stakeholders across these areas. These were: 1) The non-tariff barriers; 2) The Shared Prosperity Fund development and implementation; and 3) The new state subsidy regime.

There is concern for food and drink and other sectors where barriers exist. HIE has been collaborating with Scottish Government and Scottish Enterprise with support and guidance available via the Prepare for Brexit website, webinars and through talking to businesses.

The Committee noted the difficult situation and recognised that HIE was doing all that it could. It was also noted that the UK Government has set out a range of regional programmes, focused directly through local authorities. The Director confirmed that HIE was remaining close to Scottish Government and local authorities. The Chief Executive also confirmed that HIE had written to the UK Government requesting a meeting with the Secretary of State for Scotland.

The Committee thanked the Director for the update and asked that HIE maintains a strong advocacy role of the future of these programmes and follows-up on the request for a meeting with the Secretary of State.

Martin Johnson left the meeting.

2.3b State subsidy update

The Director of Business Improvement and Internal Audit provided an update to brief the Committee on the range of work being undertaken to understand the Subsidy Control legislation and guidance from the UK Government in order to adapt HIE's appraisal process and subsidy schemes and to introduce the Subsidy Control Implementation Plan and associated issues log.

The Committee welcomed the informative paper, noting that it was good to get clarity on a challenging situation.

Audit Scotland noted the lack of clarity at UK and European levels as the new environment develops and that HIE was doing its best around process and good governance.

2.3 c Data protection

The Director of Finance and Corporate Services provided an update to the Committee following on from a paper presented to the meeting in December 2020 regarding the data protection implications following the end of the Brexit transition period. The key change since the December paper was that the EU has agreed to delay restrictions of data transfers by at least four months, which can be extended by a further two months. The EU has also committed to issuing standard contractual clauses by the end of this period. This would allow HIE to mitigate its key risk arising from this situation (which relates to process to controller transfers where the processor is in the EU and the controller is HIE).

The Committee thanked the Director, noting the update and the need to keep monitoring the situation.

2.4 *Item removed in the interests of the effective conduct of public affairs.*

David Oxley left the meeting.

2.5 Business continuity plans update

Mark Wilcock joined the meeting.

The Head of Facilities Management provided an update on HIE's business continuity and disaster plans highlighting actions required following analysis of returned Business Impact [*Sentences removed in the interests of the effective conduct of public affairs*].

The Chair welcomed the paper which provides a good and detailed review of where the organisation is at the moment. However, it was noted that no plans had yet been seen and these will require to be brought back to the next committee meeting. The Committee also asked for clarity on arrangements for back-up, and what is covered through IT services provider EIS. The Head of Facilities Management confirmed that teams will be consulted to determine the extent of systems not linked to the network.

It was confirmed that the timetable is realistic but challenging.

The Committee were reassured at the direction of travel, noting that the Leadership Team would be responsible for approval and delivery of the plan.

The Chief Executive welcomed the helpful comments to inform the Leadership Team review of the plan.

The Committee recognised the challenge and requested an update at the next meeting.

Mark Wilcock left the meeting.

3.1 Annual report and accounts improvement plan

The Director of Finance and Corporate Services provided an update on the progress and actions being undertaken by the Financial services team to address area for improvement highlighted in the 19/20 audit report. 1) Accounts preparation process - The team is now fully recruited and familiar with HIE systems and the more complex areas of the annual accounts. The annual accounts preparation plan includes a pre audit review of complex areas of the annual accounts to ensure all complex transactions are considered fully; 2) Presentation of financial statements - The new format of these key statements will be agreed with Audit Scotland and included in the 2020-21 accounts; and 3) HIE should review its performance analysis and financial commentary - The multi-disciplinary team will review the process to ensure the issues that arose in 2019/20 in delivering the unaudited accounts document on time are addressed.

The Committee commented that it was good to see the paper and recommendations being addressed.

The Audit Director, Performance Audit and Best Value, Audit Scotland commented that it was a helpful and constructive paper, reflecting the mechanics and staffing and the desire to improve the annual accounts process.

3.1a Lessons learned from external audits

The Director of Business Improvement and Internal Audit presented a paper outlining lessons learned from the annual accounts process and identifying actions which will be implemented for the 2020-21 process. All parties commented that the 2020-21 process had worked well in the circumstances.

The Senior Audit Manager, Audit Scotland highlighted the open and frank discussion that had taken place which was indicative of then good working relations that have been built up.

It was agreed that dates for future Risk and Assurance Committee meetings need to be agreed.

3.1b Annual accounts planning for 2020-21

The Director of Finance and Corporate Services provided an update on the proposed timetable to deliver HIE and other group company accounts with the aim of ensuring that HIE meet the expectations which had been set by the Economy, Jobs and Fair Work Committee of the Scottish Parliament. The key date is 15 September 2021, which is the target date for the Risk and Assurance Committee to meet to review the audited accounts, however the paper noted that the timetable for audit had yet to be agreed with Audit Scotland.

The Committee asked how confident the Director was on achieving delivery of the accounts within the timescales. The Director confirmed that it was not yet clear what Audit Scotland's timetable for the audit process would be but, assuming this is the same as last year, then the delivery of the accounts should be achievable, as long as staff were not impacted by sickness absence.

3.2 Audit Scotland 2020-21 Annual Audit Plan and fee

The Audit Director, Performance Audit and Best Value, Audit Scotland presented the plan for the annual audit of HIE, this being the fifth year of involvement. The presentation covered significant audit risks for 2020-21, audit outputs, the audit fee and the accounts timetable.

It was noted that the audit fee for 2020-21 had increased by 2.5% compared to the previous year. Due to the pandemic, it is taking 15-20% longer to undertake the audit which Audit Scotland is absorbing. The timings are tighter and quicker across the piece and the slot for the HIE audit needs to be achieved or there will be a need to defer.

Audit Scotland will work with HIE's internal audit team on Covid-19 funding to make the best use of resource. The capability within the HIE Finance team will also be kept under review.

The Committee thanked the Audit Director for the comprehensive presentation and noted awareness of the productive relationship between HIE and Audit Scotland.

3.3 Significant transactions approach for 2020-21

The Compliance and Risk Manager presented a paper outlining the approach being adopted by the Business Improvement and Internal Audit (BIIA) team for reviewing significant transactions for 2020-21, taking into account other assurance activity undertaken in year and a revised expenditure profile.

To inform the approach for 2020-21, BIIA has considered: the impact of Covid-19, including the changed profile of expenditure; other assurance activity undertaken; the Vital Signs report from Finance team at 31 January 2021; and actual expenditure to 31 January 2021. The proposed approach for 2020-21 had been designed to ensure effort is focused on the areas of highest risk. The Audit Director confirmed that this was a helpful approach, balancing risk and capacity. The Committee look forward to receiving the report in due course.

3.4 Investment portfolio update

Jeff Foot joined the meeting.

The Head of External Funding and Investment presented a paper providing a review of the shareholdings and loans which HIE holds, including activity during the past 12 months and potential opportunities for exits. The paper addressed development of strategic approaches to financial intervention by investment and lending and provided an overview of changes to processes and documentation for loans, noting the construction of a new loan management system within the MyHIE platform.

There had been no change in shareholding over the past year, and only one new loan awarded. Most activity had concerned supporting companies experiencing difficulties because of Covid-19. While a few businesses had requested deferrals of loans so far, it was likely that many would struggle with repayment of debt taken out under Covid-19 support schemes and requests for support may increase in the coming months.

The new Scottish National Investment Bank (SNIB) are keen to develop a good relationship with HIE and staff are developing an understanding of how the bank operates. *[Sentence removed in the interests of the effective conduct of public affairs].*

The Committee asked staff to explore the potential to align HIE and SNIB's positions effectively to gain a better understanding of how to ensure complementarity and derive great impact jointly in the Highlands and Islands. The Chief Executive agreed and noted that the investment approach needs calibrated and taken back to the Board in the future.

The Committee thanked the Head of External Funding and Investment for the update.

Jeff Foot left the meeting.

3.5 Approach to annual assurance for 2020-21

The Compliance and Risk Manager presented a paper outlining the approach to the annual assurance process for 2020-21. The approach takes into account the environment within which HIE is operating, changes to processes, procedures and legislative requirements in-year, and questions included in the internal control checklist in the Scottish Public Finance Manual.

Some changes had been made to the internal checklist. The most significant change proposed this year was on the assurance sought on health and safety, specifically to recognise the changes due to Covid-19. Following consideration by Leadership Team, this had been removed from individual checklists and will be included explicitly in the stewardship report from the Health and Safety Committee which will be reported to the Committee.

The Committee commented on the length of the checklist which has 88 questions, and asked if they were all needed. It was confirmed that these form the internal environment check and need to cover all areas. The Director of Business Improvement and Internal Audit noted that the question set mainly comes from Scottish Government but does reinforce the management responsibility across the organisation. The Deputy Chief Executive also noted that, although the document is quite long, not every section has to be completed and the overall process is not onerous.

The Committee noted that they were reassured by the assurance approach.

4 PLANNED ACTIVITY **GNÌOMHACHDAN PLANAICHTÈ**

4.1 Information systems

4.1a Cyber maturity summary

Claire Murray and Chris Knight (EIS) joined the meeting.

The Director of Finance and Corporate Services, joined by the Head of EIS Cyber Security and the EIS Information Assurance Manager, provided an update following a request made at the December 2020 Committee meeting that the paper on the Cyber Maturity Review required be reviewed and amended into a plain English style.

The Chair, noting that he had asked for this to be reworded, was pleased with the revised report which was much easier to read and thanked EIS for their efforts in doing this. The Committee further commented that the report was a great improvement and were happy with the clarity the paper brings. However, it was noted that a schedule of actions would be useful.

[Paragraph removed in the interests of the effective conduct of public affairs].

The Committee thanked the Director and EIS for the update.

4.1 b SEPA cyber-attack – EIS review

The Head of EIS Cyber Security and the EIS Information Assurance Manager provided an update to highlight any lessons that HIE can learn following the significant cyber-attack on SEPA on 24 December 2020. The SEPA cyber-attack demonstrated the impact of a sophisticated attack and also the effectiveness of the SEPA incident response. The Committee asked, if this had happened to the EIS support partner network, how effective would our response be, and what lessons can we learn.

[Paragraph removed in the interests of the effective conduct of public affairs].

[Paragraph removed in the interests of the effective conduct of public affairs].

[Paragraph removed in the interests of the effective conduct of public affairs].

The Committee thanked the Director and EIS noting that there was a lot more to learn from this incident and requested an update at the next meeting.

Claire Murray and Chris Knight (EIS) left the meeting.

4.2 Update on governance policies reviews

The Compliance and Risk Manager provided an update to note progress on reviews of governance policies and the anticipated timetable for review of those not yet updated. A number of these policies have been recently reviewed and updated, and some new policies prepared to reflect the changing environment within which HIE is operating.

The Committee noted the update and were content with progress.

4.3 Risk Register at February 2021

The Director of Business Improvement and Internal Audit presented a paper asking the Committee to consider the updated February 2021 Corporate Risk Register. No new corporate risks had been added to the risk register since it was last considered by the Risk and Assurance Committee, however a number of risks had been removed following reassessment.

The Committee noted that the second highest risk was staff capacity and that ensuring organisational fit to maximise delivery of strategic outcomes was paramount.

4.4 Assurance plan progress report to end January 2021

The Compliance and Risk Manager presented an update paper of a regular report to Committee outlining assurance activity undertaken since the last report in November 2020 and a summary of progress against the agreed assurance plan for 2020-21.

Good progress had been made against the agreed assurance plan for 2020-21. However, in delivering the plan, the team was required to accommodate changes in HIE priorities, provide advice as to appropriate controls for different delivery models and to undertake additional reviews to consider concerns raised by external parties. Due to this it was proposed that three items should be moved to the 2021-22 plan. These were: 1) Information governance follow-up; 2) Revision to follow-up process; and 3) Review of expenditure on Board member interests for 2020-21.

The Committee were made aware that any of the finalised reports in the summary of reports provided in the report could be shared with them if required. It was agreed that reports would also be made available through Boardbooks.

The Director of Business Improvement and Internal Audit confirmed that an external review of information governance was underway with external expertise procured. *[Sentence removed in the interests of the effective conduct of public affairs].*

The Committee noted the report and approved the proposal that the 3 items identified above are moved to the 2021-22 plan.

4.5 Any other business

There was no other business.

4.6 Date of next meeting – 1 June 2021

The date of the next meeting was confirmed as 1 June 2021. It was however noted that meeting dates for the remainder of the year need to be confirmed, in alignment with future requirements.

5 ITEMS FOR INFORMATION **CUSPAIREAN AIRSON FIOSRACHADH**

5.1 Audit Scotland Briefing - Covid-19: What it means for public audit in Scotland

Audit Scotland provided a brief overview of their Covid-19 briefing paper to the Committee.

Adrian Kitson
2 March 2021