

**RISK AND ASSURANCE COMMITTEE**  
**COMATAIDH CHUNNART AGUS SGRÙDAIDH**

**MINUTE OF THE MEETING HELD ON 1 JUNE 2021 AT 0900 BY TELECONFERENCE**

**PRESENT:** Donald MacRae (*Chair*)  
Belinda Oldfield  
Angus Campbell  
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
Chris Roberts	Head of Communications
Louise Macmillan	Compliance and Risk Manager
Gordon Smail	Audit Director, Performance Audit and Best Value, Audit Scotland
Maggie Bruce	Senior Audit Manager, Audit Scotland
Laura Nelson	Senior Auditor, Audit Scotland
Andrew Carton	Team Leader of Sponsorship, Scottish Government
Elaine Hanton	Project Lead, Cairngorm, <i>item 2.1</i>
David Howie	Project Lead, Strategic Projects, <i>item 2.2</i>
Andrew Jenkins	Head of Financial Services, <i>item 3.1</i>
Marie Mackintosh	Subsidy Control Manager, <i>item 4.2</i>
Emma Stevenson	Financial Systems Accountant, <i>item 4.4</i>
Sylvia Beswick	Head of Procurement, <i>item 5.2</i>

**1 STANDING ITEMS**  
**CUSPAIREAN COTHROMACH**

**1.1 Welcome and apologies**

The Chair welcomed everyone to the meeting, including representatives from the Scottish Government and Audit Scotland. It was noted that Angus Campbell would need to leave the meeting temporarily at 1040 or so. There were no apologies.

**1.2 Declaration of interest**

Belinda Oldfield declared a related-party interest concerning Mott Macdonald, which has an involvement with Cairngorm.

### 1.3 Minute of Risk and Assurance Committee meeting held on 2 March 2021

The minute of the meeting held on 2 March 2021 was approved.

### 1.4 Matters arising from the Risk and Assurance Committee meeting and action note from the meeting of 2 March 2021

There were no matters arising from the minute of 2 March that were not covered by items on today's agenda.

### 1.5 Matters arising from the HIE Board meeting held on 27 April 2021

The Director of Business Improvement and Internal Audit (BIIA) noted that HIE policies concerning conflicts of interest and Board members serving on other boards were being revised and updated for review at a future meeting of the Risk and Assurance Committee. This will be informed by the current Standards Commission consultation on the Model Code of Conduct for Board Members. All other matters arising from the HIE Board meeting on 27 April 2021 would be covered under agenda items at today's meeting.

## 2 CURRENT AND EMERGING ISSUES CÙISEAN LÀITHEIL

### 2.1 Cairngorm

*Belinda Oldfield left the meeting.  
Elaine Hanton joined the meeting.*

The Project Lead, Cairngorm, updated the committee on a range of matters relating to HIE's activities at Cairngorm Mountain. These included progress with engineering works to strengthen the funicular viaduct; the new Cairngorm Masterplan; activities and plans of operating company Cairngorm Mountain (Scotland) Ltd; stakeholder engagement and communication, legacy legal cases, and governance matters. It was noted that this remained a complex and high risk project.

HIE staff were pleased with the progress being made by Balfour Beatty, noting also that the contractor had formed a positive relationship with CMSL and was taking a rigorous approach to health and safety. Challenges relating to design and exceptional external circumstances were being worked through methodically and solutions and implications for programme and cost were in the process of being considered. It was expected that any potential implications for the project programme and budget would be clearer by the time of the next full Board meeting at the end of June and would be reported then.

The Cairngorm Masterplan had been finalised and would be published on 2 June. Arrangements were in place to inform Section 50 partners, ensure widespread stakeholder and media awareness, and to put the masterplan before the Cairngorms National Park Authority Board on 11 June.

Cairngorm Mountain had reopened to visitors on 11 April. Business had been severely impacted by Covid measures but was picking up as restrictions eased and with warm spring weather. Plans to recruit a permanent chief executive were moving forward. Current CMSL board members' terms of appointment

were being extended by two years to provide continuity and a skills matrix for the overall board membership was in development.

It had been confirmed that planning consent was not required for electrical ring mains upgrading, meaning that SSEN would be able to proceed soon. The first meeting of the new Cairngorm Advisory Group had taken place, attracting a strong turnout.

It was noted that CMSL had claimed under the UK government furlough scheme it was confirmed that HIE's representative on the CMSL board would be decided by the HIE Chief Executive as an operational matter with updates to the HIE Board.

In discussion, the Committee agreed that present governance arrangements, including internal governance structure, regular reporting and oversight from the HIE Board and Cairngorm sub-group, the CMSL board, and the Committee itself, provided a strong level of assurance around the complex, high risk and multi-faceted Cairngorm programme.

*Elaine Hanton left the meeting.*

*Belinda Oldfield rejoined the meeting.*

## **2.2 Space Hub Sutherland**

*David Howie joined the meeting.*

The Project Lead, Strategic Projects, reported on progress regarding HIE's plans to establish a spaceport to put satellites into Earth orbit from Melness, Sutherland. The report focused on three key issues – HIE's application to the Scottish Land Court; a judicial review of the Highland Council's decision to grant planning consent in August 2020, and progress with a business plan by Orbex (consortium partner). Outcomes from both the land court and the judicial review were anticipated within eight to twelve weeks, which would provide greater clarity on the future direction of the project.

Bird protection was discussed as a specific issue and it was noted that NatureScot had been involved in preparing a highly detailed environmental impact assessment that had informed HIE's approach and was included as part of HIE's planning application to the Highland Council.

*[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 Chair thanked the Project Lead for this update.

## **2.3 COVID funds – audit approach**

The Director of Business Improvement and Internal Audit (BIIA) introduced a paper to inform the Risk and Assurance Committee of the approach being taken by HIE to the audit of funds specifically designed to tackle the impacts of the COVID-19 pandemic on Highlands and Islands businesses and communities. The paper described how COVID-19 funds disbursed by HIE had been approved and spent, including detail on the breakdown of the population and the approach that had been applied to select projects for review. The paper also identified applicants who had received funding more than once (within or across funds).

The audit had been designed to review a mix of key items and random sampling, while also applying auditor judgement to ensure all funds would be appropriately covered. A checklist would support the

review, focusing on key internal controls, and this would be adapted for use with each fund. HIE's Internal Audit team was liaising with Audit Scotland to avoid duplication and provide output that the national auditor could also review and rely upon.

In discussion, Audit Scotland staff welcomed the liaison that was taking place between the two organisations, noting the value of HIE's approach being developed to align with its own use of 'whole system' methodology.

The Committee noted the approach described in the paper.

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

## **2.5     Business continuity plans and cyber security update**

The Director of Finance and Corporate Services updated the Committee on progress made with HIE's business continuity planning and risk mitigation activity concerning the possibility of cyber-attack. *[Sentences 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].*

## **3       ACCOUNTS RELATED** **STUTHAN CUNNTASACHAIL**

### **3.1     Annual accounts and timetable update**

*Andrew Jenkins joined the meeting.*

*Angus Campbell left the meeting part way through item 3.1.*

The Director of Finance and Corporate Services and the Head of Financial Services presented a paper updating the Committee on the progress against the annual accounts. All dates to 1 June 2021 had been met with all others currently on target to be met although the timing is tight for sharing the draft report. With regards the audit, a similar approach to the previous year will be taken with lessons learned from the previous year taken into account. It was also noted that consolidated packs had been prepared for HIE subsidiaries with no issues or concerns raised.

The Committee highlighted that due to the timetable of Risk and Assurance Committee meetings, this left little time for input and scrutiny prior to the accounts being laid before Parliament. The Chief Executive confirmed that HIE was not yet aware of the new Parliamentary Committees but the end of September would be normal for budget scrutiny. The Chief Executive will write to the Chair and Convener of the Committee.

It was agreed that the Committee could view the unaudited draft accounts in advance. The Director of Finance and Corporate Services confirmed that this will be built into the timetable with the draft expected late August or early September however this will be finalised after discussion with Audit Scotland.

The Chief Executive confirmed that the timetable and best estimate of when the draft accounts will be available will be provided within the next two weeks.

### **3.2 Audit Scotland 2020/21 management report**

The Audit Director, Senior Audit Manager and Senior Auditor from Audit Scotland provided an update on the work undertaken to date on the audit. Work had been undertaken to review controls on systems and any changes that had been required, particularly with remote working. Review findings confirmed that all were working as expected. Early testing had also been undertaken on payroll and payments with no issues identified.

This is an early stage in audit process so significant work ongoing including Audit Scotland approach to Covid funds. Thanks was noted for the work undertaken by the HIE Business Improvement and Internal Audit team which prevented duplication of audit work.

In relation to the risk of fraud in procurement, the view and understanding of the implementation of the Scottish Government Guidance on supplier relief had been reconsidered and no further action was required. It was also noted that previous issues and actions with regards transparency and VAT had been closed.

The Committee noted the update.

*Andrew Jenkins left the meeting.*

### **3.3 BIIA report – certificates of assurance for 2020/21**

#### **3.3a Interim assurance statement**

#### **3.3b Health and Safety Committee annual assurance**

#### **3.3c ISFGG annual assurance**

The Director of Business Improvement and Internal Audit and the Compliance and Risk Manager presented an update covering all of these items together. HIE is required to confirm on an annual basis to Scottish Government Sponsorship Team that the internal control environment is operating effectively. The Committee previously considered the planned approach for 2020/21 which included completion of internal control checklists and stewardship reports by business units and for key projects and our group companies, and consideration of other assurance received in year.

The work in year concluded internal controls have been generally working well, with no significant control weaknesses identified. From the overall exercise the following areas should be considered for inclusion in the interim return to the Sponsor team: COVID-19, Cairngorm Mountain, Budgetary challenges and Post EU transition issues. Some improvement opportunities were noted, and some areas of good practice were identified. These will be taken forward as appropriate.

The Committee were assured and approved the draft statement commenting that it was good to see mention of wellbeing in the Health and Safety report and [*removed in the interests of the effective conduct of public affairs*]. COVID-19, Cairngorm Mountain, Budgetary Challenges and post transition from UK exit from EU were noted as key issues which should be included in the interim statement.

### **3.4 Draft Governance Statement**

The Director of Business Improvement and Internal Audit and the Compliance and Risk Manager presented the draft Governance Statement outlining that HIE is required to include a Governance Statement in their annual accounts. This seeks to provide an understanding of the internal control structure and the management of resources and should be informed by assurance activity in year. It

should also seek to provide an insight into HIE's risk profile and responses to identified and emerging risks.

The essential features of a governance statement are: The governance framework, including information on the committee structure of the Board and coverage of its work; The operation of the Board; Assessment of corporate governance with reference to compliance with generally accepted best practice principles and explanations where a different approach has been adopted; Assessment of risk management arrangements and risk profile, including details of significant risk-related matters arising; A record of any written authorities provided to the Accountable Officer; and Details of any significant lapses of data security.

The draft statement has also sought to consider the significant challenges faced by HIE in 2020/21 as a result of the Covid19 pandemic.

The Committee agreed the draft Statement for inclusion in the final accounts noting the areas which cannot be completed until Audit Scotland has concluded its annual audit.

### **3.5 Risk and Assurance Committee annual report 2020/21**

The Director of Business Improvement and Internal Audit presented the report for 2020/21 highlighting that the Committee met as planned 5 times during financial year 2020/21. The items discussed were aligned to the agreed plan and covered key risk areas. The Committee were content with the quality of internal and external assurance reports however noted opportunities for improvement in transparency in some areas. Areas for ongoing consideration in 2021/22 were also identified. The work of the Committee in year has been comprehensive and should provide positive assurance for the Board in relation to the HIE internal control environment.

The Committee were content and agreed that the report was an accurate reflection of work undertaken in year however asked that the date of the state aid workshop be included in the report. It was agreed that the date would be provided and slides from previous development sessions would also be uploaded to the resources section of Boardbooks with future development programme to include state subsidy and MyHIE.

## **4 PLANNED ACTIVITY GNÌOMHACHDAN PLANAICHTHE**

### **4.1 Director of BIIA annual report 2020/21**

#### **4.1a Performance against assurance plan and KPIs to 31 March 2021**

The Director of Business Improvement and Internal Audit (BIIA) presented the annual report of BIIA activity in the year 2020/21 along with the assurance plan progress and KPI update.

The COVID pandemic significantly impacted on HIE operational arrangements and delivery in year. As a consequence, the risk profile of activity, in particular relating to the delivery of Scottish Government funds, carried a higher level of inherent risk than would normally be the case This was a deliberate position taken as the organisation was asked to play a key role in delivering emergency funds to support economic resilience in light of unprecedented challenges.

During the year process improvements were supported in a number of areas. These were aimed at supporting the organisation as it responded to COVID and to support the organisational change agenda

this included putting in place the Investment Committee, the resource prioritisation and intervention framework, electronic signatures and authorised signatories and the roll-out of MyHIE.

At the year-end three complaint/other investigation reviews were ongoing and it will be important that these are appropriately concluded, and any lessons learned taken forward. Three activities were also deferred to the new financial year, these being 1) Board Interests / annual review of expenditure; 2) Assurance review revision to follow-up process; and 3) Review of information governance environment.

Overall assurance was that controls are generally satisfactory with number of improvement areas identified.

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

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

## **4.2 Subsidy control update**

*Marie Mackintosh joined the meeting.*

The Subsidy Control Manager provided an update to the Committee on the progress HIE is making in implementing the requirements of the new UK Subsidy Control regime and the HIE Subsidy Control Implementation Plan, inviting feedback on any additional actions to manage the risks and smooth the evolution from the State Aid to Subsidy regimes.

In the last quarter more information has emerged from the United Kingdom Government (UKG) and Scottish Government (SG) about what they require public sector granting authorities to do to comply with the new subsidy regime. There are still gaps – particularly on meeting the World Trade Organisation (WTO) rules around Primary Agriculture, fisheries and aquaculture. HIE has engaged Burness Paull to help with interpretation of these and to check our new scheme guidance and revised assessment procedure complies with the UK-EU Trade & Cooperation Agreement (TCA) and WTO rules.

Good progress is being made with getting everything in place with the Subsidy Control Implementation Plan with the aim being to introduce the new procedures from June. HIE has registered our four main subsidy schemes by submitting the Notification Forms to SG for onward registration on the UKG BEIS Transparency Database, on time. Scheme guidance is being rewritten and will be published on the HIE website. Training to staff will follow on the back of the MyHIE roll-out and will be at varying levels depending on the audience.

The Committee welcomed the positive report noting that it was good to get everything in place in advance and ensured that HIE was doing everything it could to deal with the risks.

*Marie Mackintosh left the meeting.*

## **4.3 Budget review and changes to delivery approach**

### **4.3a Resource prioritisation**

### **4.3b Intervention approach**

### **4.3c Risk appetite**

The Director of Business Improvement and Internal Audit provided an update on key policy areas to support HIE delivery environment and use of interventions available.

Given budget capacity and increasing demands on resources (financial and non-financial), a new Operating Plan with refreshed priorities and changes in the external support environment (including sources of finance), HIE requires to make changes to its delivery approach to ensure it remains fit for purpose. To support the delivery environment changes updates have been made to 1) The Resource Prioritisation Approach, supporting early engagement on the right strategic choices - i.e. what we do; 2) The Intervention Framework, early consideration of how we might support – e.g. think about use of other funding (rather than HIE’s budget) and use of interventions (with potential to recycle funds) such as loans rather than just Grant; and 3) The Risk Appetite Statements which provide the right culture and mandate. These documents support a key message that we need to increasingly focus on strategic alignment, opportunity cost, resource choices and types of intervention at the earliest stage of our due diligence.

The Committee welcomed the suite of documents and discussed this in detail and asked who would use this. The Director confirmed that this formed part of project appraisal with the practical application being made by those on the ground making decisions which would link into the Investment Committee.

The Committee approved the papers and the risk appetite document will be presented to the next HIE Board meeting.

#### **4.4 Write-off paper**

*Emma Stevenson joined the meeting.*

The Financial Systems Accountant presented a paper providing details of the write offs for the 2020/21 financial year. As per the 2021 Delegated Levels of Authority, the Committee are required to be presented with a summary of the write offs on an annual basis for information. These write offs were presented to Leadership Team on Monday 10th May 2021, where they approved the approach being taken for each write off.

There are a number of lessons learned which will be taken into HIE’s new intervention framework in particular to inform decision making on loans going forward and the management and monitoring arrangements for these.

The Committee discussed this in detail and noted that it was key focus on lessons learned.

*Emma Stevenson left the meeting.*

#### **4.5 Risk register at May 2021**

The Director of Business Improvement and Internal Audit presented the updated Corporate Risk Register which is an update to that which was considered by the HIE Board on 27 April 2021. The key areas to note are the increased scores for Cairngorm and the updated Business Transformation risk. It was noted that Leadership Team receive weekly updates on business transformation. Two further corporate risks have been added to the register in relation to [*removed in the interests of the effective conduct of public affairs*] and the impact of Covid on the Tourism sector.

It was noted that future process changes with respect to Risk Management have been summarised within the Review and Lessons Learned section of the risk register to give the Committee sight of new requirements coming from SG.

The Director of Finance and Corporate Services highlighted that the VAT liability had been removed and negotiations with HMRC are continuing on the new method going forward.

The Committee found it helpful to see the changes from Scottish Government come through in the report and commended the big step forward in reporting overall. An update to be provided to the next Board.

#### **4.6 Any other business**

There was no other business.

#### **4.7 Date of next meeting – TBC**

The date of the next meeting has been set as 23 September 2021.

A virtual development session (maximum 2 hours) on Subsidy Control to be arranged as well as a session on MyHIE. The invite for the development sessions to be made available to any Board members who may wish to join.

## **5 ITEMS FOR INFORMATION** **CUSPAIREAN AIRSON FIOSRACHADH**

### **5.1 Fraud policy and fraud response plan at Feb 2021**

The Committee noted the papers provided for information on the Counter Fraud Policy and Fraud Response Plan outlining HIE's approach to fraud, bribery and corruption. These were updated as part of the review of governance policies and which has been reviewed and changes agreed by Leadership Team. The revised policy was rolled out to staff in February 2021.

### **5.2 Procurement strategy and annual report**

*Sylvia Beswick joined the meeting.*

The Head of Procurement presented a paper proposing updates and changes to the existing Procurement Strategy and seeking approval from the Committee for these prior to publication on the website and submission to the Scottish Government. The strategy covers the period 2018 – 2021 and in line with the Procurement Reform (Scotland) Act 2014 requires HIE to annually review and where appropriate update our Procurement Strategy. Some minor updates and changes are proposed to the existing Procurement Strategy. Key changes noted are the refreshed look to the strategy which has benefited from input from the Marketing and Communications team and a focus on alignment with HIE's policies and priorities such as Net Zero and community benefits. There will be a new strategy for 2022 – 2025 with this revision being an interim position.

The Committee noted the good report and the forward focus on policy alignment asking how close HIE was on agreeing how to measure Net Zero. The Chief Executive outlined that HIE was working with SOSE and SE on metrics to review and measure with this increasingly having to be taken into account in procurement and investment decisions.

The Committee approved the proposed updates and changes to the strategy and its publication on the HIE website and issue to Scottish Government.

*Sylvia Beswick left the meeting.*

### **5.3 Customer feedback report 2020/21**

The Committee noted the paper which provided an overview of customer feedback, incorporating both compliments and complaints for both Highlands and Islands Enterprise (HIE) and Wave Energy Scotland (WES): an overview of requests received under the Freedom of Information (Scotland) Act and Environmental Information Regulations for both HIE, WES and Cairngorm Mountain Scotland (CMSL); and a high-level overview of next steps in terms of delivering the wider Customer Service agenda covering the twelve months from 1 April 2020 – 31 March 2021.

The Committee noted that it was good to see compliments listed as well as complaints and asked if there was enough resource to deal with complaints and FOI requests. The Director of Business Improvement and Internal Audit confirmed that opportunities were being looked at to be more proactive in relation to Cairngorm and Space which as with Covid, the nature of the activity drives requests which can be complex. It was also noted that the volume does not provide an indication of the complexity of some of the requests with a joint approach in place for dealing with these issues.

The Committee Chair thanked everyone for attending and closed the meeting.

**CLOSE DÙNADH 13.30**

Adrian Kitson / Chris Roberts  
1 June 2021