

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

MINUTE OF THE RISK AND ASSURANCE COMMITTEE MEETING HELD ON 23 SEPTEMBER 2021 AT 09:00 BY TELECONFERENCE

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

IN ATTENDANCE:

Carroll Buxton	Interim Chief Executive (from 10:04 onwards)
Nick Kenton	Director of Finance and Corporate Services
Sandra Dunbar	Director of Business Improvement and Internal Audit
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, item 2.1
Dave MacLeod	Head of Property and Infrastructure, item 2.1
David Oxley	Director of Strategic Projects, item 2.2
Audrey MacIver	Director of Energy and Low Carbon, item 2.4
Andrew Jenkins	Head of Financial Service, items 3.1 – 3.6
Eunice McAdam	Partner, Saffery Champness, item 3.2
Janie Sheridan	Head of Business Transformation, item 4.3
Mark Wilcock	Head of Facilities Management, item 4.4
Gary Matheson	Shared Services Manager, item 4.4
Sylvia Beswick	Head of Procurement, item 4.5

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting. Apologies had been received from Belinda Oldfield. It was noted that Carroll Buxton could not be present at the start of the meeting, but would join later.

1.2 Declarations of interest

Nick Kenton declared an interest as a HIE-appointed director of Wave Energy Scotland, which would be discussed under agenda items 2.4 and 3.2. This was not considered to present a conflict of interest.

1.3 To approve the minute of the Risk and Assurance Committee meeting held on 1 June 2021

The minute was approved.

1.4 Matters arising from the Risk and Assurance Committee meeting of 1 June 2021

There were no matters arising.

1.5 Matters arising from the HIE Board meetings held on 28 June 2021 and 24 August 2021

There were no matters arising.

2 CURRENT AND EMERGING ISSUES CÙISEAN LÀITHEIL

2.1 Cairngorm

Elaine Hanton and Dave MacLeod joined the meeting.

Although Belinda Oldfield was not present at this meeting, it was noted that she had declared a third party interest in the Cairngorm funicular reinstatement works and had no access to related papers.

The Project Lead – Cairngorm provided an update on HIE’s activities on Cairngorm Mountain. This covered a range of issues including: funicular reinstatement works; the Cairngorm Masterplan; operating company Cairngorm Mountain (Scotland) Ltd; stakeholder engagement and communications; operating and governance review, and ongoing legacy legal cases.

The Committee noted that, as the Board had been informed on 24 August, due to unprecedented circumstances and unforeseen design challenges, completion of the funicular reinstatement works could not be achieved in winter 2021/22 as originally planned. It was inevitable that costs for the funicular project would exceed the approved budget for reinstatement works, professional fees and optimism bias allowance in the full business case that had been agreed by the HIE Board and Scottish Government in August 2020.

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

The Director of Finance and Corporate Services informed the Committee that provision would need to be made in HIE’s annual report and accounts as a result of these changes, along with editorial amendments, including adding a note as a post-balance sheet event. Audit Scotland had been consulted and were content with HIE’s approach in this regard.

Elaine Hanton and Dave MacLeod left the meeting.

2.2 Space Hub Sutherland

David Oxley joined the meeting.

The Director of Strategic Projects updated the Committee on HIE’s project to develop satellite launch site Space Hub Sutherland, focusing on areas of risk, and actions to address them. The Committee welcomed progress in many areas, including positive outcomes from both the Judicial Review and Scottish Land Court, and ongoing discussions between community landowner Melness Crofters Estate and Wildland Ltd *[Sentence removed in the interests of the effective conduct of public affairs].*

Key areas that still require resolution include development of a full business case for consideration by the HIE Board and Scottish Government, including options appraisal for site construction and operations. *[Sentence removed in the interests of the effective conduct of public affairs].* It was also noted that a full review of the project risk register was planned.

In discussion, the Director confirmed that a report was expected shortly on the outcomes of ground investigations that had been carried out by specialist contractors in June 2021. Initial findings had not uncovered any significant problems and it was unlikely that HIE's plans would require any substantial change.

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

[Sentences removed in the interests of the effective conduct of public affairs]. The Director also confirmed that rising construction costs across the UK were being monitored to assess any potential impact on the project. It was noted that a further meeting of the Space sub-group of the board would be arranged during October.

The Committee welcomed the update and endorsed the approach being taken by HIE staff, noting that the outcomes of the judicial review and land court had significantly reduced the overall risk profile of the project.

David Oxley left the meeting.

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

2.4 Wave Energy Scotland (WES) update

Audrey Maclver joined the meeting.

Technical difficulties prevented WES Managing Director Tim Hurst from joining the meeting as planned.

The Director of Energy and Low Carbon presented findings of an independent report on HIE subsidiary Wave Energy Scotland entitled *Evaluation of the WES model in driving technical innovation* (April 2021).

The Director also outlined plans for a full review of WES governance, including: future strategy; the role of the WES Advisory Group; skills required for the WES board; governance and operational arrangements between HIE and WES; joint funding with other bodies; benefits realisation; alternative investment opportunities and business models, and stakeholder engagement. This review was expected to conclude by the end of March 2022, with implementation following thereafter. Staff emphasised the importance of continuing to ensure alignment of WES activities with HIE's role in economic development.

In addition, a review of EU funding being accessed by WES was about to commence. *[Sentence removed in the interests of the effective conduct of public affairs].*

Carroll Buxton joined the meeting at 10:04.

The Committee welcomed the evaluation, which concluded that WES had succeeded in meeting its objectives for phase one. With a new phase of WES activity now focusing on supporting transition to commercialisation, which could prove significant in delivering national net zero ambitions, members agreed the time was right to review governance arrangements and ensure they remained fit for purpose.

Further details will be brought to the committee once the way forward for the review has been determined. It was agreed that the process should include input from a sub-group of the HIE Board, particularly to test governance proposals at an appropriate stage.

Audrey Maclver left the meeting.

3.1 Audit Scotland Annual Report for 2020/21

3.1a Audit Scotland covering letter and letter of representation

3.1b Draft Annual Audit Report

Andrew Jenkins joined the meeting.

The Audit Director, Performance Audit and Best Value, Audit Scotland, presented the auditors' covering letter and letter of representation and the draft annual audit report for 2020/21.

The Committee welcomed the findings of the annual audit report, which offered an unmodified opinion that the financial statements of HIE and its group gave a true and fair view of their financial position at 31 March 2021 and net expenditure for the year. Administration of COVID-19 support funding to businesses and communities had been a major feature of the year, and was well managed. Significant challenges included those relating to Cairngorm Mountain and the reinstatement of the funicular railway.

One area highlighted for improvement concerned governance arrangements for financial write-offs, which could be better aligned with the accounting process and accounts timetable. *[Sentence removed in the interests of the effective conduct of public affairs].*

Processes followed by HIE and Audit Scotland had been made more challenging by the move to home working that the pandemic had made necessary, and the Committee recognised the achievement of staff from both organisations in concluding the accounts process within the designated timescale.

HIE's Director of Finance and Corporate Services thanked the Audit Scotland team for the work they had put in to producing the report, and commented on significant findings from the audit of financial statements. In particular, HIE acknowledged that errors had initially been made in relation to the MyHIE business improvement programme, which had incorrectly been identified as IT equipment, and in calculating depreciation in the value of some plant and equipment assets at Cairngorm.

The Director disagreed with Audit Scotland's conclusion that part of HIE's methodology to account for capital receipts did not comply with the Financial Reporting Manual (FRoM), arguing that HIE had made a different, but valid, interpretation of the manual. It was also noted that two other items that the report had highlighted as misstatements – relating to revaluation of assets held for sale and to HIE's investment in the Orkney Research and Innovation Campus – followed treatments that had been accepted in previous accounts. One other issue, relating to the relatively new funding stream of financial transactions, would, in HIE's view, benefit from clearer guidance in the FRoM. Notwithstanding the points highlighted, the Director was content with the accounts as presented.

In future years, it was hoped that a return to office-based working would support more efficient teamwork, reducing the risk of errors and enabling differences of interpretation between HIE and Audit Scotland to be discussed and resolved at an earlier stage in the process.

The Chair added the Committee's thanks to Audit Scotland, notably the Senior Audit Manager, who had worked very closely with HIE colleagues. The Committee formally received the report and agreed to a request by the Chair to reconvene for a short meeting the following day. As the audit report had been received at relatively short notice, the main purpose of this additional meeting would be to provide assurance that there were no outstanding issues requiring further discussion. *[Sentence removed in the interests of the effective conduct of public affairs].*

3.2 Group companies audit reports 2020/21

Eunice McAdam joined the meeting.

Saffery Champness presented the 2020/21 audit reports for HIE group companies.

3.2a Orkney Research and Innovation Campus

No errors were identified in the accounts and a clean opinion was given.

3.2b Wave Energy Scotland Ltd

The audit was substantially complete and auditors anticipated issuing an unmodified opinion. It was noted that the balance sheet recorded a supplement of £228,000, which arose from a gap in the timing between grant funding being received and issued. *[Sentences removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].*

3.2c HIE Ventures Ltd

An unmodified opinion was given. As HIE Ventures Ltd has ceased activity, the audit report noted it was unlikely to incur future costs that could not be met from existing cash resources.

3.2d Cairngorm Mountain (Scotland) Ltd

Cairngorm Mountain (Scotland) Ltd had achieved a break-even position during 2020/21, reflecting the arrangement that revenue funding is provided by HIE. The audit was substantially complete and an unmodified opinion was expected. Risks were identified, including the company's reliance on HIE for continuing financial support, and the funicular railway currently being out of service.

Eunice McAdam left the meeting.

3.3 BIIA report – Composite significant transactions report for 2020/21

The Director of BIIA presented the composite significant transactions report for 2020/21. This reflects outcomes of an annual exercise to review the most significant transactions in-year, in order to ensure payments were made appropriately and would not impact on the annual accounts. This year, around 14% of total expenditure (£14m of £98.7m) had been reviewed in this exercise. Separate reviews were also undertaken of COVID funds, covering a further 15% of expenditure in 2020/21.

One overpayment of £172k had been identified that impacted on the accounts. This was believed to have arisen from a timing issue, however additional evidence was currently being sought from the client. Other lessons learned had also been identified and these would be shared with staff across the organisation.

The Committee welcomed the report, noting lessons learned and recommendations for improvement. In response to questions, it was confirmed that, while HIE had responded to many clients' needs for invoices to be paid swiftly during the pandemic, staff had sought to balance flexibility with the continuing need for proportionate risk assessment.

3.4 BIIA report – Composite COVID funds report for 2020/21

The Director of BIIA presented the composite COVID funds report for 2020/21. This had reviewed 50 projects with expenditure of £5.1m across a range of funds that had been introduced during the year as part of the national response to the economic impacts of the pandemic on Scotland's businesses and communities.

The report highlighted areas of good practice and identified lessons learned. Overall, it concluded that, while assurance controls were adequate, improvements were required. As a result, detailed recommendations had been agreed with project officers through individual reviews.

The Committee welcomed the report, recognising that HIE staff had put in a great deal of additional effort throughout the pandemic to ensure that these funds were managed effectively and quickly to deliver vital support to hard-pressed businesses and communities throughout the Highlands and Islands.

3.5 HIE Annual Report and Accounts 2020/21

The Director of Finance and Corporate Services introduced HIE's annual report and accounts 2020/21, which were included in the Committee papers for today's meeting, drawing the Committee's attention to a small number of revisions to some figures that had been made since the report had been circulated.

A summary report, noting all these amendments and capturing final out-turns, would be delivered to the full Board in October. Overall, the annual report showed a strong performance by HIE, including the delivery of around £43m of additional Scottish Government funding in response to COVID-19 economic impacts on businesses and communities across the region.

Changes that had been made since a previous draft was distributed to the Committee in August were highlighted by the Head of Financial Services. These included clarification of details of COVID-related expenditure, additional text to reflect post-balance sheet events, an accounting provision in relation to the Cairngorm funicular reinstatement programme, and updates to the financial commentary and governance report. The Director also drew the Committee's attention to a contingent liability relating to the European Marine Energy Centre, noting that this had been present since 2008.

As the Committee had had limited time to review this latest draft, it was agreed that further discussion could take place at the following day's additional meeting to confirm that members were content to recommend that the report and accounts could now be signed by the Interim Chief Executive and Accountable Officer.

3.6 Proposed final certificate of assurance

The Compliance and Risk Manager presented the draft final certificate of assurance that HIE is required to submit to its sponsor team in the Scottish Government. The Committee had previously been informed that work in-year had concluded that HIE's internal controls were working well, with no significant control weaknesses, and an interim certificate of assurance had been submitted to the Scottish Government.

Following external audit, it was now proposed that the final certificate should highlight four specific areas of risk. These aligned with themes that had been included in the interim certificate, namely: COVID-19, Cairngorm Mountain, budgetary challenges, and post-transition following the UK's exit from the EU.

The Committee confirmed they were content to recommend that the Interim Chief Executive and Accountable Officer sign the final certificate.

4 PLANNED ACTIVITY **GNÌOMHACHDAN PLANAICHTE**

4.1 Plans for 2021/22

4.1a Assurance plan

The Business Improvement and Internal Audit directorate prepares an annual assurance plan to support HIE in the delivery of priorities and outcomes, and provide the Accountable Officer with assurance on the effectiveness of the internal control environment.

In preparing the proposed assurance plan for 2021/22, staff had reflected changes to the internal and external environment, including funding opportunities, regulatory changes, new processes, a revised intervention framework, risk appetite and the new operating plan. Lessons learned and knowledge sharing were identified as key areas for attention in 2021/22 and the need for flexibility to respond to unforeseen requirements was also recognised.

Reviews were planned on a range of topics. In addition to lessons learned, these included: Significant transactions and Covid funds; other income; application of outcomes, intervention principles and risk appetite; governance arrangements for priority investments, and information governance.

The Committee agreed the plan was thorough and comprehensive, and sought assurance that HIE had the necessary internal staff resource to deliver its actions in full, particularly if new areas needed to be addressed during the year. The Director of BIIA agreed this was a valid concern and confirmed that a review would be carried out at the end of December. The Chair noted this point and recommended that actions in the plan be prioritised to optimise the effective use of resources. The Committee agreed with this suggestion and endorsed the assurance plan.

4.1b Risk and Assurance Committee plan

The Committee considered an annual plan for 2021/22 to ensure it delivers its role effectively. This had been prepared following assessment of the internal control environment and areas of risk and emerging opportunity. It was agreed that the Chair and the Director of BIIA would discuss the plan further to include a forward schedule of items and themes to be addressed at each Committee meeting.

Members highlighted significant risks and opportunities affecting regional growth that were presented by factors outwith HIE's immediate control, including housing and transport infrastructure. It was agreed that these were key themes that HIE discussed regularly with Scottish Government and which would be addressed at meetings of the full Board.

4.2 Risk register – September 2021

The Committee welcomed the latest HIE Corporate Risk Register, which had been revised very slightly from the previous version. It was noted that a more substantial version will go to the full Board.

4.3 MyHIE closure report

Janie Sheridan joined the meeting.

The Head of Business Improvement presented an update on MyHIE, a Microsoft 'power platform environment' that had been introduced as a key element of HIE's business transformation programme to improve delivery of services to external customers and HIE colleagues. The scale of MyHIE is significant and would set a cornerstone for future innovation and collaboration with customers and partners. The programme has been the subject of positive assurance reviews, benchmarking and case studies that highlighted the strength of our vision and approach.

Delivery of MyHIE had established a stable, resilient platform which can be built on in future [*Sentence removed in the interests of the effective conduct of public affairs*]. It was a future-proofed environment to support HIE's refreshed approach to client engagement and wider organisational change, and was aligned to the ambitions of the national Business Support Partnership, with opportunities for re-use and collaboration. Re-engineered processes, maximising the use of people and intuitive technology were being brought together and MyHIE was also a flagship support model that could be applied to other platforms within HIE and across the EIS partnership.

The paper outlined areas that had gone well with rollout, along with those that had been challenging, such as the release of resources into the project at appropriate times, particularly when there was also an urgent need for HIE to respond to the pandemic. Lessons had been identified and would be applied to future large-scale change projects within HIE.

In response to a question submitted by Belinda Oldfield via email, it was confirmed that phase one of MyHIE had focused on taking out a legacy environment and standing up a minimum viable product. It was also noted that a planned integration with the HIE website was still envisaged, but had been put back while website management was being re-tendered. While some other elements in the initial programme had also been put back, there were also examples of those that had been brought forward. These points would be addressed in writing to Ms Oldfield and other Committee members.

The Committee also asked how staff assessed customer needs and wishes. It was explained that HIE ran forums for customers and colleagues to input ideas and requests. These had been valuable in shaping developments to date and the future journey of the project. Mechanisms were also in place for staff to receive feedback from clients.

The Director of BIIA confirmed that staff intended to deliver a presentation on MyHIE to Board members in the near future, when there would be further opportunities for discussion.

The Chair thanked the Head of Business Transformation and her team for their work to date in delivering a highly complex project and achieving a relatively smooth transition.

Janie Sheridan left the meeting.

4.4 Business continuity plan update

Mark Wilcock and Gary Matheson joined the meeting.

The Head of Facilities Management provided an update on HIE's business continuity and pandemic planning. This included an annual review in July, with amendments made to reflect organisational changes and lessons learned from the pandemic. *[Sentence 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].

Mark Wilcock and Gary Matheson left the meeting.

4.5 Annual procurement report

Sylvia Beswick joined the meeting.

The Head of Procurement presented the HIE annual procurement report for 2020/21, noting that it will be made public on the HIE website. The report identified several areas where performance has improved, including use of collaborative procurements and spend with small-to-medium-sized enterprises. Areas identified for improvement included opportunities for community benefits.

The report provided a forward plan with information on potential future procurements and ideas to incorporate appropriate opportunities relating to themes such as net zero and community benefits. It also included a number of procurement strategy targets for 2021/22.

The Committee welcomed and endorsed the report.

Sylvia Beswick left the meeting.

4.6 Any other business

4.6.1 Procurement of consultancy support

In response to a question from the Committee, the Director of BIIA provided an update on the approach for procuring consultancy support. This includes separate lower delegated authority arrangements and use of pre-procured frameworks for commonly required support, both of which help ensure best value is assessed.

4.7 Date of next meeting

A short meeting of the Committee will be held on Friday 24 September to cover final amendments to the 2020/21 annual report and accounts.

It was agreed that provisional dates for Committee meetings over the coming year would be circulated to members for agreement.

A development session will be scheduled for Committee members, with the invitation extended to the full Board.

The meeting closed at 12:57.

Chris Roberts
Head of Communications
23 September 2021