

HIGHLANDS AND ISLANDS ENTERPRISE

04/15

MINUTE OF THE RISK AND ASSURANCE COMMITTEE MEETING HELD AT FRASER HOUSE, INVERNESS, 29 MARCH 2016 AT 1300 HRS

PRESENT:

Steve Thomson, Chairman
Alistair Dodds
Donald MacDonald
Craig Spence

IN ATTENDANCE:

Charlotte Wright	Director of Business and Sector Development
Forbes Duthie	Director of Finance and Corporate Services
Sandra Dunbar	Head of Business Improvement and Internal Audit
Chris Roberts	Head of Communications
Marion McCormack	Scottish Government
Brian Howarth	Assistant Director, Audit Scotland
Jeff Foot	Head of External Funding and Investment, item 7
Janie Sheridan	Business Improvement and Internal Audit, item 21

1 Apologies

Apologies were received from Alex Paterson, Chief Executive.

2 Declaration of Interests

Steve Thomson declared an interest in item 11, specifically concerning his role in the Wave Energy Scotland Advisory Group. It was agreed that Alistair Dodds would take the chair for this item, but that Steve Thomson could remain in the meeting.

3 To approve the minute of the meeting held on 8 December 2015

The minute of the meeting held on 8 December 2015 was approved.

4 Matters arising

There were no matters arising from the minute of the meeting of 8 December 2015 that would not be covered on the agenda.

5 Matters arising from the HIE Board meetings on 15 December 2015 and 10 February 2016

There were no matters arising from the HIE Board meetings of 2015 and 10 February 2016 that would not be covered on the agenda.

ANNUAL ACCOUNTS

6 Annual accounts update

The Director of Finance and Corporate Services updated the Committee on the timetable for preparing HIE's annual accounts for 2015/16. It was noted that a first draft of the accounts was due to be presented to Audit Scotland on 27 June 2016, and that Audit Scotland would be on site in Inverness from that date through to 29 July. It was noted that accounts for HIE subsidiary Wave Energy Scotland (WES) would be included, and that EY had been engaged to audit and prepare these. Two changes were highlighted: replacing the previous Management Commentary with a new Performance Report, Accountability Report and Financial Statements section; and the adoption of IFRS 13 Fair Value Measurement which was expected to generate a number of additional disclosure notes in respect of HIE's financial assets.

The accounts are scheduled to be laid before the Scottish Parliament on 30 September.

7 Update on review of HIE shareholdings and investment portfolio

Jeff Foot joined the meeting.

The Head of External Funding and Investment introduced a paper summarising progress to date in restructuring HIE's portfolio of share investments. The Committee welcomed the update and the Chairman expressed their thanks to the Head of External Funding and Investment for the considerable progress which had been achieved since summer 2011, when this process was initiated, to align HIE's shareholding more closely with current objectives.

Jeff Foot left the meeting.

8 Approach to significant transactions reviews for 2015/16

The Head of Business Improvement and Internal Audit (BIIA) presented a paper describing the BIIA team's recommended approach to review significant transactions in 2015/16. This annual review is the most significant piece of assurance work carried out by the BIIA team. The recommended approach in 2015/16 was similar to previous years, with the additional inclusion of HIE subsidiary Wave Energy Scotland (WES). All Block A HIE and WES projects between 1 April and 31 December 2015, with transactions of £400k or more, would be subject to review. In January and February 2016, it was considered appropriate to lower the threshold to include projects of £200k. Auditor judgment would identify any additional projects that might be considered high risk. All in-year Block B transactions of £200k or more would be subject to review.

In discussion, it was noted that Block A expenditure at every level is monitored actively in-year, with HIE's Leadership Team receiving weekly updates and the Finance team working closely with budget holders across the organisation. The Head of BIIA confirmed significant transaction reviews were only part of the wider assurance activity and that a range of other assurance measures were in place to monitor activity across business units. Specifically it was noted that salary expenditure has been subject to separate reviews as part of the Internal Audit plan.

The Committee endorsed the recommended approach.

9 HIE approach to annual assurance

For the Committee's information, the Head of Business Improvement and Internal Audit (BIIA) outlined the approach which HIE planned to take to its annual assurance process

covering 2015/16. It was noted that HIE would use this approach to compile a return on annual assurance for submission to the Scottish Government for inclusion as part of the wider Government assurance process.

EMERGING ISSUES

10 Risk Register

The Committee welcomed the latest HIE Risk Register, dated January 2016, which had been considered by the HIE Board at its meeting in February 2016. This identified a total of 7 tactical risks and 16 strategic risks that HIE had identified and was currently tracking and treating.

In discussion, the risks associated with ensuring delivery models appropriately support the delivery of benefit from community asset ownership for example arising from Community Broadband activity, was raised and potential refinement to the existing risk suggested. In addition it was suggested that an additional risk be considered, highlighting the effects of potential economic uncertainties which could arise from the upcoming UK referendum on EU membership.

The Committee also noted that they would welcome an update on CBS activity at a future meeting.

11 Wave Energy Scotland (WES): Governance arrangements

Steve Thomson having declared an interest, consideration of this item was chaired by Alistair Dodds.

The Head of Business Improvement and Internal Audit (BIIA) reminded the Committee of the previous considerations and agreement which confirmed the creation of WES as a separate entity operating as a HIE subsidiary and presented a paper detailing further legal advice which HIE had procured following consideration of WES governance arrangements by both the Leadership Team and Risk and Assurance Committee. The most significant matter for HIE concerned the key protections the agency would be afforded in its capacity as sole member of the company Wave Energy Scotland Ltd.

The Committee noted the advice that HIE has full control over the actions of WES, and agreed that the Memorandum and Articles of Association, and Service Agreement should now proceed to be finalised by HIE and submitted to the WES Board for approval. As previously agreed, it was noted that the Operating Agreement would not be finalised until WES's VAT position was resolved. In addition, the Committee approved the adoption of a template letter of appointment for WES directors.

The paper also reported that Steve Thomson's current appointment as Chair of the WES Advisory Group, due to conclude at the end of March 2016, was planned to be extended for a further year (with an option to extend for one more year following this). This would enable a period of review to be undertaken, which was intended to be followed by the appointment of an external Chair.

With this item concluded, Steve Thomson resumed chairing the meeting.

12 Update on current court cases

The Head of Business Improvement and Internal Audit provided a verbal update to brief the Committee on the status of two current court cases that are included in the HIE Risk Register.

13 Framework agreement between HIE and the Directorate for Economic Development

The Committee noted the contents of the new Framework Agreement between HIE and the Scottish Government Directorate for Economic Development. It is a requirement for every non-departmental public body in Scotland to have in place such an agreement, which replaces the previous Management Statement and Financial Memorandum. Key areas of change were noted by the Committee. Audit Scotland also offered separately to review wording relating to external auditors, and will discuss this directly with the Directorate.

14 Business Development Bank update

The Director of Business and Sector Development explained the context of correspondence received from the Deputy First Minister and relating to the Scottish Government's plans to establish a new Scottish Business Development Bank. This service had been designed to fill a gap in the current provision of funding for SMEs, and was being introduced as part of a parcel of measures from the Scottish Government to improve access to finance for businesses across the country.

15 Election guidance

The Head of Communications presented guidance concerning the conduct of HIE staff and Board members during the current period leading up to elections to the Scottish Parliament on 5 May 2016. HIE's guidance had been prepared in line with national measures affecting civil servants and staff and directors of agencies throughout Scotland. It had come into effect on 24 March and had been promoted through the intranet. Guidance relating to the upcoming UK referendum on EU membership was anticipated and would also be implemented when received.

PLANNED ACTIVITY

16 BIIA report on activity to 31 January 2016

The Head of Business Improvement and Internal Audit presented the latest report on the BIIA team's assurance activity, covering the 10 months to 31 January 2016. The Committee welcomed in particular progress which had been made in enabling and delivering new ways of working within HIE, including the role of a new Leaders for Change internal group; the impending move of Inverness and Dingwall staff to custom-built, shared premises on Inverness Campus, and the use of Objective Connect as a data sharing platform, both internally and externally. The Head of BIIA underscored the importance of ensuring that improved internal systems were designed from the outset to create customer benefits, and that progress towards this aim would be covered in the Digital HIE update to the Committee (item 21).

17 Audit Scotland annual plan

The Assistant Director of Audit Scotland presented the national auditor's 2015/16 annual audit plan for Highlands and Islands Enterprise. The plan reflected risks and priorities facing HIE; national risks relevant to local circumstances in the Highlands and Islands; any impact from changing audit and accounting standards, and issues brought forward from previous audit reports. Planned activity in 2015/16 would include an audit of HIE's financial statements; a review of HIE's financial management arrangements and financial sustainability; an assessment of governance and performance arrangements in key areas, and local follow-up on Audit Scotland's national report, *Scotland's Public Sector Workforce*. It was noted that 2015/16 would be led by the Assistant Director and would be the final audit to be undertaken through the current five-year programme.

The Committee noted that the plan specified provision for an external review of HIE's internal audit function. The Head of BIIA confirmed this review had been carried out in the past by the Scottish Government's internal audit team and designed as a peer-to-peer review to examine the effectiveness of HIE's audit function as a whole, rather than scrutinising individual audits. As such, it was complementary to the work carried out by Audit Scotland. The Head of Business Improvement and Internal Audit confirmed that this review would take place within the next 3 year programme of activity.

The Committee thanked Audit Scotland for this update.

18 HIE approach to Regionally Significant Investments

The Head of Business Improvement and Internal Audit presented a paper outlining HIE's updated approach on identifying and managing Regionally Significant Investments (RSIs); which are specifically designed to create new opportunities delivering significant, long-term benefits for the Highlands and Islands. The paper included a list of current RSIs across the region, and the template used for monitoring their progress and benefits realisation.

Members requested that information on lessons learned from the management and delivery of RSIs, which currently are considered by HIE's Leadership Team, should also be presented to the Risk and Assurance Committee, particularly those concerning projects which had received Board approval. This was agreed.

19 HIE approach to EU compliance

The Head of Business Improvement and Internal Audit presented a paper describing HIE's approach to EU compliance, which is reviewed regularly by BIIA to ensure compliance with the Commission's regulatory requirements. HIE's Data Centre and Planning and Partnerships team work alongside BIIA in complementary roles, which include providing guidance and training for staff, carrying out assurance reviews, and liaising with external auditors on issues affecting EU funding and the interpretation and application of State Aid regulations.

It was noted that the new European Structural and Investment (ESI) programme was expected to create a significantly increased compliance role for HIE, which would also be required to provide audit reviews for Community Broadband Scotland projects receiving funding through the Scottish Rural Development Programme (SRDP). In addition, HIE was required to audit the work of Visit Scotland in relation to HIE's business competitiveness strategic intervention.

Taking account of this anticipated increase in activity, the Committee supported a proposal that discrete elements of audit and compliance work should be undertaken by external contractors, noting that some costs were expected to be reclaimed through the relevant EU programmes.

Donald MacDonald left the meeting at this point, 1456 Hrs.

20 Information Systems Assurance strategy and delivery

The Committee welcomed a paper describing a joint approach to assurance activity proposed by HIE, Scottish Enterprise and Skills Development Scotland as partners in a shared service arrangement for information services. The Head of Business Improvement and Internal Audit explained that the approach was focused on risk and aimed to maximise opportunities for collaboration between the partners, while avoiding unnecessary duplication and providing for the most effective and efficient use of resources. In response to questions,

it was confirmed that the approach was intended also to identify improvements which had been achieved through investment in technology across the three organisations.

An initial strategic delivery plan for 2016/19 was included in the paper and identified areas of annual audit focus. The Head of BIIA noted that comments would be welcomed from Audit Scotland with respect to this approach.

21 Digital HIE update

Janie Sheridan joined the meeting.

The Risk and Assurance Committee welcomed an update on progress in delivering the Digital HIE strategy across the organisation. The most significant business improvement activity currently being progressed in the agency, Digital HIE aims to embrace digital opportunities to transform how HIE delivers services and products and engages with internal and external customers and with partners.

In particular, the presentation noted the introduction of the Objective Connect data sharing and collaboration platform which HIE was using with partners and clients, and the development of web apps to enable account managed clients to benefit from easy access to specialist advice and be assessed for HIE support to enable growth. A new intranet was being developed at pace, and due for delivery mid-April. A cloud-based service for clients and staff, My Knowledge and Insights, was progressing well and HIE was maintaining close involvement and alignment with the key national digital initiative mygov.scot. A new post of Head of Marketing had been filled which would support this strand of the strategy in particular.

The Committee stressed the need to consult external clients, and it was confirmed that HIE had accessed Scotland-wide customer intelligence to inform development so far. Consideration was now being given as to how best to conduct bespoke research from HIE's own customers and partners.

Marion McCormack left the meeting at this point, 1520 Hrs.

Janie Sheridan left the meeting.

22 New ways of working principles

The Head of Business Improvement and Internal Audit presented a set of principles which had been developed to assist the successful delivery of new ways of working across HIE, including benefiting from digital opportunities. The Committee noted the principles, which had been endorsed by HIE's Leadership Team.

23 Governance environment update – bribery, fraud, gifts and hospitality

The Head of Business Improvement and Internal Audit distributed copies of a leaflet which had been prepared following a review of HIE's governance environment, and presented updated policies covering gifts and hospitality, and fraud, bribery and corruption. Both policies had been reviewed against new legislation and best practice.

The Committee welcomed the leaflet and updated policies.

STANDING ITEMS

24 AOB

This meeting was the last to be attended by Steve Thomson and Craig Spence, whose terms as HIE Board members would conclude on 31 March. Both members expressed their

gratitude to the Head of Business Improvement and Internal Audit and her team for all their impressive support over these years, which had done much to assist the Committee in carrying out its functions effectively.

Alistair Dodds, who will take over as Chair of the Risk and Assurance Committee from 1 April, paid tribute on behalf of the Board and senior HIE staff to Steve Thomson and Craig Spence, each of whom had served HIE with leadership, commitment and insight for eight years and had helped develop HIE's audit and risk environment as a highly effective framework for assurance across the organisation.

25 Date of next meeting

The next meeting of the Risk and Assurance Committee will be held on Tuesday 7 June at the new offices of Highlands and Islands Enterprise, An Lòchran, Inverness Campus.

Chris Roberts
29 March 2016