

MINUTE OF THE MEETING OF THE RISK AND ASSURANCE COMMITTEE, HELD AT AN LÒCHRAN, INVERNESS, ON TUESDAY 7 JUNE 2016 AT 13.00 HOURS

PRESENT:

Alistair Dodds (Chair)
Ailsa Gray
Donald MacRae

IN ATTENDANCE:

Alex Paterson	Chief Executive
Forbes Duthie	Director of Finance and Corporate Services
Sandra Dunbar	Head of Business Improvement and Internal Audit
Carole Grant	Senior Audit Manager, Audit Scotland
Marion McCormack	Head of Sponsorship, Scottish Government
Chris Roberts	Head of Communications
Andrew Jenkins	Head of Financial Services, items 8-11
Tim Hurst	Managing Director, Wave Energy Scotland, item 12

1 Welcome and apologies

The Chairman welcomed Ailsa Gray and Donald MacRae to their first meeting of the Risk and Assurance Committee. Mr Dodds thanked the two Board members for accepting their invitations to join the Committee, and noted that each possessed particular experience and insights that would prove highly valuable in informing future discussions and decisions.

Apologies were received from Donald MacDonald. Marion McCormack had been delayed travelling and would join the meeting on arrival.

2 Declaration of Interests

There were no declarations of interest.

3 To approve the minute of the meeting held on 29 March 2016

Minor amendments were noted. As Alistair Dodds was the only member present who had attended the previous meeting, it was agreed that Donald MacDonald should be consulted prior to the minute being approved.

4 Matters arising

Following questions from the Chairman, the Head of Business Improvement and Internal Audit provided updates on two items reported in the minute. On item 13, *Framework agreement between HIE and the Directorate for Economic Development*, it was clarified that

Audit Scotland would be submitting feedback directly to the Scottish Government. On item 20, *Information systems assurance strategy and delivery*, it was reported that Audit Scotland had provided comments verbally following the meeting.

5 Matters arising from the HIE Board meeting on 26 April 2016

It was noted that the HIE Board had suggested clarifications concerning two risks identified in the most recent HIE Risk Register. The latest version of the register, incorporating these changes, would be considered by the HIE Board at its next meeting, on 21 June 2016.

ANNUAL ACCOUNTS

6 Business Improvement and Internal Audit (BIIA) 12-month report 2015/16

The Head of Business Improvement and Internal Audit (BIIA) presented the BIIA team's Annual Report 2015/16. This is provided to HIE's accountable officer and includes an independent audit opinion on the adequacy and effectiveness of HIE's systems of internal control. The 2015-16 report tracked the performance of the BIIA team during the year, as it undertook a programme of continuous improvement activity against a set of eight characteristics (known by the acronym 'CREATIVE') to ensure HIE delivers best value, inspires innovation and achieves successful outcomes.

BIIA had worked with the wider organisation to implement a range of improvement initiatives, including: accelerating implementation of Digital HIE aspirations, including transforming service delivery to customers; increasing focus on transparent public reporting; delivering new ways of working facilitated by increased connectivity and digital solutions; reviewing appraisal processes to ensure alignment with Scotland's Economic Strategy; supporting effective use of new EU funding arrangements and the application of assessment tools, including State Aid, and ensuring that HIE's governance culture supports effective organisational delivery. The team had produced 36 reports (with a further five in draft at year-end) and 60 presentations, papers and workshops that made a significant contribution to business improvement or assurance related activity.

Donald MacRae raised a question regarding the reliability and effectiveness of the MS Lync system used by HIE for internal and external communications, including webinars, video and audio conferencing, and increasingly for telephony. The Director of Finance and Corporate Services acknowledged that systems used by HIE and its partners in a shared IT services agreement, including Lync, had experienced an unusually high number of difficulties in the past two weeks. He was confident, however, that these issues were being addressed, and that Lync's performance overall was not a cause for significant concern.

The Chairman asked what processes were in place to appraise the performance of HIE account managers, and it was explained that a variety of measures were in place, including appraisal of individuals through line management, and oversight of overall effectiveness through HIE's client relationship managers. In response to a further question on debt control, the Director of Finance and Corporate Services referred to an independent review which had concluded that levels of rent arrears owed to HIE were in line with those experienced by similar organisations elsewhere.

7 Risk and Assurance Committee Annual Report 2015/16

The Head of Business Improvement and Internal Audit presented the Risk and Assurance Committee Annual Report 2015/16, which will be delivered to the HIE Board on 21 June 2016. This included revised terms of reference, an annual plan that the Committee had put

in place and a summary of its activities to oversee HIE's business improvement and internal audit work, and to consider reports from HIE's external auditor, Audit Scotland. The Committee, which fulfils the role of audit committee, as defined in the Scottish Government Audit Committee Handbook, had held four meetings during the year.

In summary, the report concluded that the Committee's work during the year had been comprehensive and had provided positive assurance for the HIE Board in relation to the organisation's internal control environment. The Committee had been content with the quality of both internal and external assurance reports received. A number of areas had been identified for ongoing action, including: governance and operational arrangements in place for Wave Energy Scotland; delivery of Regionally Significant Investments, and information systems assurance. These would continue to be monitored by the Committee. Changes to Committee membership were noted, including the appointment of Alistair Dodds as Chairman from 1 April 2016, succeeding Steve Thomson, whose appointment as a HIE Board member had ended.

Donald MacRae asked whether consideration had been given to appointing a deputy chair of the Risk and Assurance Committee. The Head of Business Improvement and Internal Audit reported that, with only four members, and a quorum of three, the Committee had not considered the appointment of a deputy chair necessary in the past.

8 Annual Accounts update

Andrew Jenkins joined the meeting

The Head of Financial Services reported that progress in preparing HIE's Annual Accounts for 2015/16 was proceeding well and on schedule. The accounts are due to be provided in draft to Audit Scotland for review on 27 June and laid before the Scottish Parliament on 30 September 2016.

Changes to the accounts this year would include the replacement of a management commentary, other reports and statements with a section covering performance report, accountability report and financial statements. In addition, International Financial Reporting Standard 13, Fair Value Measurement, had been adopted and was expected to generate some additional disclosure notes in respect of financial assets. It was noted that EY had been engaged to audit and prepare annual accounts for HIE subsidiary Wave Energy Scotland, and prepare financial statements. This audit was also progressing to timetable.

In discussion, Donald MacRae requested information on procedures for approving the Directors' Report, which is one strand of the Accountability Report in the Accounts. It was confirmed that HIE's Chief Executive, as accountable officer, would review this and sign off. The final version would then come before the Risk and Assurance Committee, and was scheduled for the September meeting.

9 BIIA report: annual assurance process 2015/16

The Head of Business Improvement and Internal Audit (BIIA) reported on the outcome of assurance work that had taken place across HIE to inform the accountable officer and enable completion of the 2015/16 certificate of assurance and internal control checklist. Some issues and areas for improvement had been identified and would be taken forward as part of the business improvement agenda, although none of these was judged significant. Similarly, Audit Scotland reports during the year had noted no significant control weaknesses.

Opportunities had been identified to refresh staff training in areas including information management, responsibilities for internal controls, information technology, procurement, data protection, customer service, and equalities. There was scope for improvement in assessing benefits realisation, capturing lessons learned, and the use of independent reviews in relation to regionally significant investments. Challenges had been noted around the use of an online performance appraisal system, and there was scope to raise awareness and improve consistency of health and safety procedures.

[Paragraph withheld as disclosure at this time could have a negative impact on commercial interests of a third party.]

10 Internal control checklist and interim assurance statement

a) Interim Certificate of Assurance

b) Internal control checklist

The Committee received, for information, copies of HIE's internal control checklist and interim assurance statement, which had been submitted to the Scottish Government. A final version of the Certificate of Assurance would be submitted once HIE's annual accounts and related audit had been completed.

Ailsa Gray asked whether HIE used benchmarking to identify and apply best practice. The Head of BIIA confirmed this was the case, with HIE following 'Orange Book' guidance from HM Treasury and aligning risk evaluation and tracking with corporate strategy and performance measurement to ensure the agency's risk actions supported decision making and business performance.

Marion McCormack joined the meeting at this point.

11 Audit Scotland HIE Review of Key Internal Controls 2015/16

Carole Grant introduced Audit Scotland's latest review of HIE's key internal controls. This annual exercise seeks to gain assurance that HIE systems provide a sound basis for the preparation of financial statements, and an adequate means of preventing and detecting error, fraud or corruption, and that the organisation complies with established policies, procedures and regulations. This showed that key controls within HIE's financial systems were operating satisfactorily and that the organisation's internal audit work was of good quality. No significant control weaknesses had been identified, although some actions were recommended to strengthen the control environment. These included clarifying the delegated authority arrangements for payments within large projects, and timely completion of year-end closedown procedures for the financial ledger.

Andrew Jenkins left the meeting

EMERGING ISSUES

12 Wave Energy Scotland – Stage Gate Process – presentation

Tim Hurst joined the meeting

The Managing Director of Wave Energy Scotland (WES) gave a presentation on the 'stage gate' process, devised and implemented by WES, which had been set up as a subsidiary of HIE in late 2014 as a vehicle to stimulate wave energy research and accelerate commercial development of innovative products in Scotland. The stage gate model invites developers to compete for WES funding to support research and development of technology designed to achieve specific outcomes. Projects which are accepted for first stage funding are then

subject to competitive evaluation, selection and approval to go through up to three further stages, with the ultimate aim being commercial development. A wide-ranging advisory group provides technical and professional advice to inform the selection process and WES's recommendations would be put to the HIE Board for final decision.

The Committee welcomed the presentation and explored the process and its rationale more deeply through a series of questions. The Managing Director of WES agreed that effective application of the system required discretion to ensure promising ideas and projects which might not meet all criteria were not automatically rejected. The Committee recommended that insurers had valuable expertise in the wave energy field, and Mr Hurst confirmed that this sector was represented on the WES Advisory Group. Other answers concerned the long-term nature of wave energy development, WES's requirement for funded developers to be willing to share and license intellectual property for the good of the sector overall in Scotland, and the present lack of appetite among private investors to put money into wave energy development.

Tim Hurst left the meeting.

13 Audit Scotland draft report – Supporting Scotland's Economic Growth – the Role of the Economic Development Agencies

The Committee welcomed a draft of the upcoming Audit Scotland report, *Scotland's Economic Growth – the Role of the Enterprise Agencies*, which had been shared in confidence to enable members to contribute comments to Audit Scotland before the report is finalised. The report is expected to be published and placed before the Scottish Parliament Audit Committee in July.

14 Risk Register – April 2016

The Head of Business Improvement and Internal Audit (BIIA) presented HIE's Corporate Risk Register, compiled in April 2016 following review of business unit registers, discussion with key individuals and consideration of matters raised at the most recent Board and Senior Managers meetings. This showed that the organisation had identified, and was treating, a total of 19 specific risks (15 strategic and 4 tactical). An updated version of the register would be presented to the HIE Board on 21 June.

It was decided to consider item 20 on the Committee agenda, Risk Action Tracker, together with discussion on the Risk Register. Issues discussed included the reliability of transport services and the potential effect on business and investor confidence of economic uncertainty created by the UK's upcoming referendum on EU membership. The Head of BIIA stressed the importance of considering risks against HIE's business objectives, and not in isolation.

Ailsa Gray suggested that there might be occasions where the HIE Board could be provided with more detailed risk information – for example, to highlight particular risks concerning specific projects or themes. It was also agreed to explore the potential use of risk maps as visual means of presenting information in the register.

PLANNED ACTIVITY

15 BIIA Annual Plan 2016/17

The Committee welcomed the 2016/17 annual plan for the Business Improvement and Internal Audit team, designed to support HIE management in achieving business improvement and meeting strategic priorities by undertaking and supporting activity against

the CREATIVE characteristics. It was noted that the plan would be kept under review during the year, and amended as required to reflect changing priorities, emerging risks and opportunities for more efficient and effective delivery.

16 HIE Business Improvement Strategy and Programme

The Head of BIIA presented the latest Business Improvement Strategy and Programme, designed as a plan for the whole organisation, and requiring support and delivery across all parts of HIE. It was noted that priority areas would include: accelerating implementation of Digital HIE aspirations; maximising opportunities to develop new funding sources and delivery models; encouraging a culture of innovation, knowledge sharing and effective engagement; focusing attention on outcomes, and effort on items of greatest benefit and highest risk; ensuring performance measurement supports good decision making, and proactive public reporting, customer research, insights and feedback.

Ailsa Gray asked whether HIE had in place a staff innovation scheme to encourage employees to put forward their own new ideas for business improvement. The Head of BIIA cited a range of different initiatives, including a cross-cutting 'Leaders for Change' group; a staff innovation competition called 'Spotlight', which had run in past years, and a specific focus on creating opportunities for more new graduates to join the organisation in roles focused on new areas of work.

17 Risk and Assurance Committee Annual Plan 2016/17

The Head of BIIA presented the Risk and Assurance Committee Annual Plan 2016/17, designed to assist the Committee in delivering its role effectively. Three general areas were included in the plan: external audit reports; BIIA reports, and reports from senior responsible owners (SROs).

The Chairman asked whether it was intended that outcomes from HIE's significant transactions would be reviewed. The Head of BIIA confirmed that this had been done previously, particularly to identify any themes that might need to be addressed through specific actions, and that a future meeting of the Committee could consider how best to develop this approach. The Chairman also requested an update on HIE's investment in next generation broadband, and it was agreed that the Director of Broadband and Digital be invited to provide this.

18 Customer Feedback April 2015 – March 2016

The Committee welcomed HIE's latest customer feedback report, covering the 12 months from April 2015 to March 2016. It was noted that the report included compliments received by HIE as well as complaints and Freedom of Information (FOI) enquiries, and that it was used as a valuable business improvement tool.

During 2015/16, 22 complaints had been successfully treated through frontline resolution, and one request received for a complaint investigation. It was noted that Wave Energy Scotland would follow HIE's lead in complying with the Scottish Public Sector Ombudsman model complaints handling policy. In 2015/16, WES had received two complaints, which had been dealt with through frontline resolution.

HIE had received 59 FOI requests in 2015/16, all of which had received a response within the statutory timescale. One request for review had been received, and partially upheld, with some further information provided. One appeal had gone forward to the Office of the Scottish Information Commissioner, but had subsequently been withdrawn.

19 Internal Audit Terms of Reference and Charter

The Committee noted HIE's updated Business Improvement and Internal Audit Terms of Reference and Charter. The Chairman enquired about progress with arranging an independent review of HIE's delivery of internal audit, and the Head of BIIA confirmed that arrangements were being put in place for this to be implemented in 2017/18, as part of a three-year cycle.

20 Risk Action Tracker

The Committee noted the latest Risk Action Tracker. Discussion on specific risks identified in the report had taken place jointly with consideration of item 14, Risk Register.

21 Supporting our clients through effective collaboration

The Head of BIIA presented an update on the progress of two pilot projects which HIE had launched, with the Bank of Scotland and VisitScotland, to take a more proactive approach to collaboration with other organisations. It was noted that effective collaboration, both internally and externally, was essential to ensuring that private and public sector resources were applied effectively and efficiently for the benefit of HIE's clients and the region.

The Committee welcomed the steps HIE was taking through these pilots to enhance collaborative working, and offered suggestions for other organisations with which HIE might consider extending these arrangements. It was confirmed that HIE intended to follow up the pilot by extending collaboration to other partners.

22 Audit Scotland re-appointment letter

The Committee welcomed a letter to HIE's Chief Executive from Audit Scotland, confirming that, following completion of a tender, the national audit agency would be HIE's auditor again for financial years 2016/17 to 2020/21. It was noted that other public bodies which would be audited by Audit Scotland during the same period included Scottish Enterprise and Skills Development Scotland.

23 Risk and Assurance Committee learning and development environment (as per committee plan – agenda item 17)

The Committee noted that an introduction to HIE's approach to risk management would be included as part of a self-assessment workshop, to be scheduled for the morning of 13 September, and followed by the regular Risk and Assurance Committee meeting in the afternoon. Further development sessions were planned to cover HIE's financial environment; State Aid; HIE's project appraisal processes, and HIE project and information management systems.

STANDING ITEMS

24 Date of next meeting:

The next meeting of the Risk and Assurance Committee is scheduled for **Tuesday 13 September**.

Chris Roberts
7th June 2016