

**MINUTE OF THE MEETING OF THE RISK AND ASSURANCE COMMITTEE, HELD AT AN LÒCHRAN, INVERNESS, ON TUESDAY 7 MARCH 2017 AT 12.00 HOURS**

**PRESENT:**

Alistair Dodds (Chair)  
Ailsa Gray (by phone)  
Donald MacDonald  
Donald MacRae

**IN ATTENDANCE:**

Charlotte Wright	Interim Chief Executive
Forbes Duthie	Director of Finance and Corporate Services
Sandra Dunbar	Head of Business Improvement and Internal Audit (BIIA)
Maggie Bruce	Senior Audit Manager, Audit Scotland
Marion McCormack	Head of Sponsorship, Scottish Government
Chris Roberts	Head of Corporate and Media Relations
Keith Bryers	Head of Property and Infrastructure, item 6
Susan Smith	Head of Business Development, item 6
Zoe Laird	Director, Community Broadband Scotland, item 7
Stuart Robertson	Director of Digital Highlands and Islands, item 7
Louise MacMillan	Compliance and Risk Manager, item 9
Jeff Foot	Head of External Funding and Investment, item 11

**1 Apologies**

There were no apologies.

**2 Declaration of Interests**

There were no declarations of interests.

**3 To approve the minutes of the meeting held on 10 January 2017**

The minutes of the meeting on 10 January 2017 were approved, with two minor corrections.

**4 Matters arising**

**a Information systems**

With reference to item 9, *Business Improvement and Internal Audit (BIIA) report: Information systems business as usual assurance review*, Donald MacRae asked when the agreed service improvement and resource plan would be brought back to the Committee. The Head of BIIA informed the committee that the intention was to present this plan at its next meeting, in June 2017. It was also noted that HIE's Leadership Team had now formally taken on the role of digital programme board to oversee and appraise all projects and actions relating to the HIE digital strategy.

## **b Orkney Research and Innovation Campus**

In response to a question from the Committee Chair, the Head of BIIA confirmed that HIE and Orkney Islands Council were making good progress towards establishing a joint venture, in the form of a limited liability partnership, that would aim to enhance Orkney's marine energy cluster by establishing a new research and innovation campus in Stromness. An update will be brought back to a future meeting of the committee.

## **5 Matters arising from the HIE Board meeting on 7 February 2017**

There were no matters arising from the HIE Board meeting on 7 February 2017.

## **EMERGING ISSUES**

### **6 Cairngorm Mountain Limited (CML) update**

The Head of Business Development and the Head of Property and Infrastructure updated the Committee on the enterprise agency's relationship with Cairngorm Mountain Ltd (CML), the company that has operated the HIE-owned funicular railway and associated facilities at Cairngorm since June 2014. The paper outlined key risks associated with CML, along with recommended actions for both HIE and Natural Retreats (CML parent company) to mitigate them. HIE continues to hold detailed quarterly meetings with CML, and both parties maintain contact on at least a weekly basis.

In 2016, CML's second full year of trading, the company had delivered income of £4.7m, representing 16% growth from the previous year. Weather dependency in both winter and summer, was recognised as a significant challenge however, with the 2016/17 winter season in particular having been unable to offer any snow sports to date. This was an unprecedented situation that had resulted in significant loss of projected revenue for the business, which was now planning to reduce staff numbers as a direct result. HIE staff shared the company's view that there was a pressing need to diversify the product offering at Cairngorm to enable CML to achieve year-round sustainability.

The Committee noted that CML was preparing to submit a pre-planning application for a masterplan that would include introducing a dry ski slope and making improvements to the Ptarmigan building. This would require a change of purpose affecting loan funding that the HIE Board had approved in February 2014, and would be the subject of Board discussion in April 2017. HIE had also decided to commission an independent feasibility study to determine whether reinstating chair lifts at Core na Ciste, which had been mothballed in 2005, presented a viable option. With HIE's encouragement and support, CML was placing greater emphasis on stakeholder engagement, particularly with statutory consultees.

The Committee raised questions on a range of issues. On Coire na Ciste, it was clarified that the feasibility study was being implemented in response to calls from the Save the Ciste group, which has campaigned for some years to have the chair lifts reopened. The study would examine engineering, topographical and economic issues, and Save the Ciste would be among those consulted. On the subject of the proposed dry ski slope, HIE staff expressed the view that, had such a facility been in place in the present year, it would have enabled CML to trade much more healthily despite the lack of snow.

The Committee welcomed the update and noted that the masterplan would be considered in detail at the next meeting of the HIE Board.

*Keith Bryers and Susan Smith left the meeting.*

## **7 Update on broadband connectivity**

*Stuart Robertson and Zoe Laird joined the meeting.*

The Director of Digital Highlands and Islands and the Director, Community Broadband Scotland (CBS), which is delivered nationally by HIE, presented an update on broadband connectivity, which plays a major role in both the Scottish Government's digital strategy and HIE's Operating Plan. This showed that HIE's infrastructure rollout programme, delivered with BT, is on course to deliver fibre coverage to 86% of premises in the region, slightly above target, by the end of 2017. Workshops to encourage use of digital connectivity had attracted 3,500 people and one to one sessions had been held with 470 businesses. CBS, which is funded until 2018, had connected more than 1,400 premises in the last five years. With firm plans in place to connect a further 8,000 premises, CBS was exploring alternative business models to deliver in the most remote and dispersed areas. HIE's focus was now turning to delivery of 'R100' (also known as 'Reaching 100%'), the Scottish Government's commitment to bring superfast broadband to all premises in Scotland by 2021.

In response to a question from Donald MacRae, Mr Robertson acknowledged that the pace and reach of broadband coverage in parts of the Highlands and Islands had attracted criticism, and that meeting public expectations around the delivery of superfast speeds (defined by the Scottish and UK Government as greater than 24 Mbps) would remain a challenge. Allsa Gray commended the work of the HUBS community interest group in exploring and developing alternative technologies. Zoe Laird confirmed that HIE had supported HUBS and stressed the importance of developing innovative and bespoke solutions for communities in areas where standard technology is unable to deliver.

Discussion concentrated on the importance of achieving the R100 target, and the role HIE can play in making this a success. The CBS Director stressed the need for rurality to be considered as a key element of the Scottish Government's upcoming R100 procurement. The Committee discussed the principle of an 'outside-in' model, whereby the needs of the most rural and remote areas would be met first, although it was recognised that an 'inside-out' approach tended to be more cost-effective.

It was agreed that HIE's long record of experience in rural development would be valuable in supporting the delivery of R100 and the Committee confirmed its support for HIE staff seeking to make a strong contribution towards achieving the best outcomes for the Highlands and Islands and other rural areas. Marion McCormack offered to relay this message to the Scottish Government, and to report back to the Digital Highlands and Islands and CBS teams. The Committee also stressed the importance of clear and regular public communications on broadband.

*Stuart Robertson and Zoe Laird left the meeting.*

## **8 Risk management strategy update**

*Louise MacMillan joined the meeting.*

The Head of Business Improvement and Internal Audit (BIIA) presented a refreshed risk management strategy that had been agreed by HIE's Leadership Team, and which included a list of the top 10 corporate risk themes currently being addressed by HIE. The new strategy had been designed to support HIE management to take intelligent risks that would help deliver the organisation's objectives within an appropriate governance environment. While it was important that HIE should take no risks concerning compliance with legislation and regulation, an appetite for intelligent and aware risk taking was an essential hallmark of any successful economic development agency.

The Committee welcomed the strategy, in particular its aim to sustain and develop a culture within HIE that enabled staff to be risk aware, but not risk averse. It was also noted that the Corporate Risk Register would be presented regularly to the full HIE Board. Members suggested that it would be helpful for the Committee to be able to review in greater detail the risks associated with particularly complex or sensitive projects, such as digital connectivity, and this was agreed.

## **PLANNED ACTIVITY**

### **9 Risk Register**

The Head of BIIA presented HIE's most recent corporate risk register, compiled following review of each business unit register, discussions with key individuals, and consideration of points raised by Board members and senior managers. This showed that, in February 2017, HIE had identified a total of 31 risks (22 strategic and 9 tactical) that were being tracked and treated by staff across the organisation.

The Committee welcomed the findings, noting that future reports would reflect the implementation of the new risk management strategy, discussed earlier. Greater clarity was requested regarding strategic risk 13/17, which concerned the need to ensure growth across all parts of the Highlands and Islands. It was also agreed that the format of the report should be adjusted to show clearly any specific risks that had been added to or removed from the register in line with the paper presented to the HIE Board.

*Louise MacMillan left the meeting.*

### **10 Business Improvement and Internal Audit (BIIA) update to 31 January 2017**

The Committee welcomed an update on activities of HIE's BIIA team in the 10 months to 31 January 2017. During this period, the team had delivered 42 outputs by way of reports, with a further three reports currently in draft, in addition to a significant number of presentations, papers, workshops or other activities that contributed positively to business improvement and assurance across HIE. In response to a question from the Chair, the Head of BIIA indicated that HIE was making satisfactory progress in implementing improvements to business effectiveness and efficiency through digital technology, and continuing to work with partners including the Scottish Government to support the delivery of improvements across the public sector in Scotland.

### **11 HIE shareholdings and investment portfolio update**

*Jeff Foot joined the meeting.*

HIE's Head of External Funding and Investment presented a comprehensive update of progress made to improve the composition and risk profile of HIE's portfolio of investments following the introduction of proactive portfolio management in summer 2011. It was noted that actions taken over these six years had addressed difficulties that had arisen from rights incorporated into share investments in previous times, with the result that there were now no holdings left that could give rise to such problems in future.

HIE's current approach, featuring a presumption of buying only ordinary voting shares instead of other classes with attendant rights, would also minimise the risk of difficulties of this kind occurring again. In addition, the agency's capacity to manage its portfolio effectively had been enhanced through the introduction of a new virtual team of five account managers with deeper skills and knowledge of share investments and loans in particular.

While HIE's investment portfolio had performed less well than some others, the Committee noted there were mitigating circumstances arising from the risks HIE had been required to take to meet its objectives. With the changes implemented since 2011, HIE's portfolio was now much closer to a private sector model, and could be expected to perform at a comparable level. It was important to note, however, that HIE's core rationale for investing was to facilitate economic development, and that the value of non-financial impacts was often significant.

In discussion, the Committee noted that the arm's length venture capital vehicle HIE Ventures Ltd, which was being wound down, had played a valuable role. However, changes to State Aid rules suggested that it could be more efficient in future to optimise investment by HIE itself, or the Scottish Investment Bank, than to seek to replace HIE Ventures directly.

The Committee welcomed the update in its new format, and agreed that lessons learned from specific investments should be shared with the full Board and with senior managers of HIE.

*Jeff Foot left the meeting.*

## **12 Business Improvement and Internal Audit – approach to significant transactions review**

The Committee approved the BIIA team's recommended approach to review significant transactions in 2016/17. This was designed to direct effort proportionately to examine the issues presenting the greatest risk and to focus the team's efforts on adding value to HIE's activities and outcomes. Among other activities, all HIE and Wave Energy Scotland Block A-funded projects of £400,000 or more from 1 April to 31 December 2016, and of £200,000 or more from 1 January to 31 March 2017 would be subject to review. All Block B projects of £200,000 or more through the whole year would also be subject to review.

It was noted that additional work had been undertaken in advance of payments being processed regarding two specific cases that were subject to ongoing external scrutiny - *[Sentence removed in the interests of the effective conduct of public affairs]*.

## **13 Business Improvement and Internal Audit – approach to internal control assurance process**

The Head of BIIA presented a paper describing the approach HIE intended to take to complete an internal control checklist and interim assurance statement that would be submitted to the agency's sponsor team in the Scottish Government and inform completion of the annual certificate of assurance. The Committee endorsed the thorough approach that was recommended. For Audit Scotland, Maggie Bruce confirmed that the approach outlined by HIE appeared comprehensive and its effectiveness would be reviewed as part of the year-end process.

## **14 Annual accounts process update**

The Director of Finance and Corporate Services presented the Committee with a timetable for the preparation of HIE's annual accounts for 2016/17. This showed that HIE would provide completed accounts to Audit Scotland on 26 June 2017, and that the target date for laying the certified report and accounts in the Scottish Parliament was 30 September 2017. In discussion, Maggie Bruce confirmed that Audit Scotland was content with the process described. It was also confirmed that the upcoming departure of the Director of Finance and Corporate Services, who was due to retire on 31 March 2017, would not affect production of the accounts.

## **15 Audit Scotland annual plan**

The Senior Audit Manager, Audit Scotland, presented the 2016/17 annual audit plan for HIE. The Committee noted that this followed a new, more concise format and welcomed its clarity. In discussion, the Chair questioned the wording of risk number 1, which stated that management assurances concerning the risk of management override of controls regarding fraud were not applicable.

The Senior Audit Manager explained that the wording used in the plan had been taken directly from International Standard on Auditing (ISA) 240, but agreed to relay the Chair's point to Audit Scotland for further consideration. It was also confirmed that Audit Scotland would take an interest in impacts arising from the current Enterprise and Skills Review.

## **16 Strategic internal audit plan – information systems**

The Head of BIIA presented a strategic internal audit plan for Skills Development Scotland, Scottish Enterprise and HIE, as partners in a shared service arrangement for the provision of information services. Members welcomed the plan, noting that specific reports on disaster recovery and cyber security would be presented at future meetings of the Risk and Assurance Committee.

## **STANDING ITEMS**

### **17 Date of next meeting**

The next meeting of the Risk and Assurance Committee is scheduled for Tuesday 7 June 2017.

### **18 Any other business**

#### **a Director of Finance and Corporate Services**

The Committee joined the Chair in expressing their sincere gratitude to the Director of Finance and Corporate Services, who was attending his final meeting of the Committee prior to his upcoming retirement at the end of March. In addition to wishing Mr Duthie a long and happy retirement, members complimented him for providing consistently excellent support to the Committee and to the Board as a whole over many years.

Chris Roberts  
7 March 2017