

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

**MINUTE OF THE MEETING HELD AT AN LÒCHRAN, 10 INVERNESS CAMPUS
TUESDAY 7 JUNE 2017**

PRESENT:

Alistair Dodds (Chair)
Ailsa Gray
Donald MacDonald
Donald MacRae

IN ATTENDANCE:

Charlotte Wright	Chief Executive
Sandra Dunbar	Head of Business Improvement and Internal Audit (BIIA)
Andrew Jenkins	Head of Financial Services
Gordon Smail	Associate Director, Audit Scotland
Maggie Bruce	Senior Audit Manager, Audit Scotland
Marion McCormack	Head of Sponsorship, Scottish Government (by phone)
Chris Roberts	Head of Corporate and Media Relations
Graeme Harrison	Area Manager, Orkney, item 14
Harvey Stevenson	Head of Strategic Projects, Orkney, item 14
Rob Clarke	Head of Policy, item 15
Paul Clarke	Head of Systems Team, EIS, item 16 (by phone)
[Redacted]	[Redacted], EY, item 19 (by phone)
Janie Sheridan	Business Improvement Manager, item 22

1 Welcome and apologies

The Chair welcomed everyone to the meeting. There were no apologies.

2 Declarations of Interest

There were no declarations of interest.

3 To approve the minute of the meeting held on 7 March 2017

The minute of the committee meeting held on 7 March 2017 was approved.

4 Matters arising

With reference to item 7, *Update on broadband connectivity*, Marion McCormack confirmed that she had reported to the Scottish Government HIE's desire to use its rural development expertise to the delivery of the Reaching 100% (R100) programme, and that further discussions had taken place on how best to achieve this.

5 Matters arising from the HIE Board meetings on 11 March 2017 (WES); 11 April 2017; 25 April 2017 (WES); 11 May 2017, and 6 June 2017

The Head of Business Improvement and Internal Audit (BIIA) noted that, on 6 June, Board members had asked what steps HIE was taking to ensure robust cyber security measures were in place, in the light of recent international attacks. This matter would be addressed specifically during the present meeting (item 16).

ANNUAL ACCOUNTS CUNNTASAN BLIADHNAIL

6 Annual accounts update

The Head of Financial Services updated the Committee on progress with preparing HIE's annual accounts for financial year 2016/17. Work was proceeding on schedule, with first draft accounts due to be ready by 19 June. Auditing will proceed with Audit Scotland during July and August before accounts are tabled at the Risk and Assurance Committee on 5 September, and presented to Audit Scotland for signoff by 21 September. HIE's accounts are due to be laid before the Scottish Parliament on 30 September.

HIE had obtained support to prepare this year's accounts from chartered accountants Johnston Carmichael, and Fiona Kennedy Accountants had been appointed following procurement to audit HIE subsidiaries Wave Energy Scotland (WES) and HIE Ventures Ltd. Donald MacDonald asked whether the process for preparing the WES accounts was also running to schedule. Mr Jenkins confirmed this was the case. The Committee thanked the Head of Financial Services for this update.

7 Business Improvement and Internal Audit annual report 2016/17

The Head of BIIA presented a report summarising the activities of HIE's Business Improvement and Internal Audit team from 1 April 2016 to 31 March 2017. During this time, the team had delivered 46 outputs by way of reports issued, with a further three currently in draft. Systems of overall internal control had been judged generally satisfactory. Business improvement opportunities had been identified in a number of areas, including customer service and digital aspirations; information systems arrangements; Freedom of Information; information management; European funding and State Aid compliance; project appraisal; risk management, and governance. These issues and others would continue to be monitored and reported on to the committee in the coming year.

The Committee discussed several issues that had been highlighted in the 2016/17 report. These included recognising the need to maintain pace in delivering the digital HIE vision, and challenges associated with a growing degree of complexity in some Freedom of Information requests. In response to a question from Ailsa Gray, the Head of BIIA explained that HIE had a well-established FOI exemption group to ensure sensitive and complex cases were dealt with appropriately. Donald MacRae sought assurance that the provision of IT services through a shared services agreement with Scottish Enterprise and Skills Development Scotland was working effectively. This was confirmed, with the Chief Executive commenting that the arrangement presented a good example of collaborative working between public agencies.

In response to a question from the Chair, Mr Smail confirmed that Audit Scotland agreed with wording in the report affirming its confidence in the effectiveness of HIE's internal audit function. Mr Dodds thanked the Head of BIIA for her report.

8 European compliance and State Aid activity

The Committee welcomed an update from the Head of BIIA on activity regarding EU funding and State Aid from April 2016 to March 2017. During this period, the BIIA team had closely monitored compliance with several EU programmes, and provided support to a European Commission review of HIE's General Block Exemption scheme for the first six months of its operation. This review had closed in October 2016, having concluded that HIE was compliant. BIIA had, however, recognised opportunities to improve HIE's information management, evidence retention and 'company in difficulty' assessments, and taken actions to learn lessons and support consistent performance across the organisation. On a daily basis, the team had continued to provide specialist advice and support to HIE staff on State Aid, and had also been involved in more complex case work for several specific projects.

Discussion focused on the need to ensure that HIE continued efforts to sustain an organisational culture that encouraged both intelligent risk taking and compliance with regulations. The Chief Executive stressed the importance of project and programme leaders across HIE being supported to take responsibility for effective delivery. In response to a question from Donald MacRae, the Head of BIIA confirmed that HIE had adopted the definition for 'date of granting' that was recommended by the Scottish Government State Aid unit. Committee members also suggested clarifications to the wording of some sections, and these were agreed.

9 BIIA report – certificates of assurance 2016/17

The Head of BIIA presented a report describing actions taken to provide the Chief Executive, as HIE's accountable officer, with assurance on the effectiveness of internal controls. Each business unit and Wave Energy Scotland (WES) had been required to complete a summary statement of assurance to highlight significant issues for incorporation into the overall return and to inform HIE's business improvement agenda. Subsidiary HIE Ventures Ltd had also provided a summary assurance statement on a selected number of areas reflecting the type of work it undertakes.

The Chair thanked the Head of BIIA for a very thorough report, noting that specific matters raised, including internal controls, interim certificate of assurance, and draft governance statement, would be discussed individually as agenda items for the present meeting.

10 Interim assurance and internal control checklist

- a) Interim signed certificate of assurance for 2016-17**
- b) HIE internal control checklist 2016-17**

The Committee welcomed the interim signed certificate of assurance for 2016/17, and the HIE internal control checklist 2016/17. It was noted that the answers to questions 9.4 and 10.4 in the internal control checklist, relating to equalities monitoring and risk assessment of information assets respectively, should both be recorded as 'yes'.

11 Draft governance statement

The Committee welcomed the draft governance statement which, when completed, will be signed by the Chief Executive as HIE's accountable officer, and included in HIE's annual accounts for 2016/17.

12 Audit Scotland interim audit report

The Associate Director, Audit Scotland, introduced the draft interim audit report on HIE for 2016/17. This concluded that appropriate arrangements were in place for budgeting and financial management. A medium-term financial plan had been prepared, and it was recommended that this could be enhanced through the use of scenario planning.

An opportunity had been identified to improve internal control by using an independent source to confirm contact details for a supplier requesting changes in bank details.

The Chair thanked the team at Audit Scotland for their work on this report.

13 Risk and Assurance Committee annual report

The Chair introduced the Risk and Assurance Committee annual report 2016/17. As HIE's audit committee, the Risk and Assurance Committee is required to produce a report as part of the annual cycle of the HIE accounts and wider governance framework, timed to support the Governance Statement (formerly the Statement of Internal Control). The report concluded that the committee's work during the year had been comprehensive, providing positive assurance for the HIE Board in relation to the organisation's internal control environment. The Committee was content with the quality of both the internal and external assurance reports received. The work of internal and external audit teams had identified areas where action was required on an ongoing basis, and the Committee will continue to monitor these. Mr Dodds paid tribute to the Committee members for their diligence and the effectiveness of their contributions throughout the year.

Following discussion, it was agreed that matters arising would be addressed at the next meeting of the Committee in September 2017. These included the Committee's effectiveness, and terms of reference. A report on the effectiveness of the HIE Board, currently being undertaken by Audit Scotland, was also expected to be ready in time for the September meeting.

EMERGING ISSUES **CÙISEAN LÀITHREACH**

14 Orkney Research and Innovation Campus update

Graeme Harrison and Harvey Stevenson joined the meeting.

HIE's Orkney area team presented an update on progress towards creating the Orkney Innovation Research and Innovation Campus to capitalise on the islands' international lead in the marine energy sector. This focused in particular on the phase one capital works programme, proposals to establish a joint venture with Orkney Islands Council (OIC) in the form of a limited liability partnership, and HIE's internal project management and benefits realisation arrangements. Mr Harrison confirmed that partnership arrangements were currently working well, and that the project was progressing on schedule.

Members discussed this paper in some detail, highlighting the importance of establishing robust and effective governance arrangements for the proposed limited liability partnership. The Committee agreed that HIE should establish non-executive representation on the campus board, in addition to staff input, and that steps should be taken to identify an independent chair. The Committee also recommended establishing a dedicated risk register for the project, to be held jointly with OIC and including measures to address specific issues that may arise through the joint venture arrangement.

It was noted that the business case for the £6.65m campus project would require formal Scottish Government approval, possibly at ministerial level. The Committee agreed that this would be finalised and submitted to the government for decision as quickly as possible.

An update will be provided to the HIE Board, which is due to meet in Orkney in October 2017.

Graeme Harrison and Harvey Stevenson left the meeting.

15 Highlands and Islands and leaving the EU

The Head of Policy updated the Committee on ongoing work to identify, analyse and treat risks affecting HIE's work and the region more generally arising from the UK's decision to leave the European Union. It was noted that HIE had identified a series of actions to mitigate risks and address economic uncertainty during the present transitional period. These included: understanding issues affecting the region as a result of leaving the EU; influencing government to ensure Highlands and Islands issues are well understood; supporting HIE clients to understand and respond to challenges and opportunities arising from Brexit, and acting to maximise benefit from funding that is currently available from EU sources.

The Committee discussed these matters in depth, with members stressing the importance of HIE taking an active role in influencing national policy, including collaborating with fellow members of the new strategic board that would be established as an outcome of the Enterprise and Skills Review. It was recommended that HIE should build on present initiatives to pursue opportunities in export markets outside the EU, and look for opportunities to support sectors that were likely to be most deeply affected by Brexit, such as tourism and crofting.

The potential impact on organisations that employ large numbers of EU citizens, including the NHS, also needed to be examined. It was recognised that there was scope to learn lessons from other nations outside the EU, with Norway and Finland cited as examples. Donald MacRae informed the Committee that he was involved in analysis of Brexit implications being carried out by the Royal Society of Edinburgh, and offered to discuss this with HIE's Planning and Partnerships team.

The Committee thanked the Head of Policy for this report, and it was agreed that further updates will continue to be provided as the situation develops.

16 Cyber security update:

- **BIIA update**
- **EIS update**

Paul Clarke joined the meeting by phone.

The Head of Systems with EIS, which provides information systems services and support to HIE, Scottish Enterprise and Skills Development Scotland, provided an update on cyber security. This included successful measures that had been taken swiftly by HIE and EIS staff to address the threat posed by a recent, international, ransomware attack that had affected systems in the NHS in particular. The attack had reinforced the need to ensure that a comprehensive security system was in place, and to test this rigorously in preparation for a worst case scenario.

The Head of BIIA confirmed that HIE had acted immediately in response to the recent cyber attack, and was taking forward all of the recommendations made by EIS, on a prioritised basis. Ailsa Gray informed the Committee that Business in the Community Scotland had set up a Business Emergency Response Group (BERG) which could provide helpful insights, and offered to help HIE make contact.

The Committee agreed to keep this issue under review, and requested an update in six months.

Paul Clarke left the meeting.

17 Risk management strategy and process refresh – update

The Head of BIIA presented a paper which outlined the approach HIE has been taking to reviewing its risk management arrangements. This paper noted that this activity was work in progress, it highlighted the action taken to date and identified the areas where further activity was needed. Further updates will be provided to future Committee meetings.

18 Interim financial management arrangements

The Committee welcomed an update from the Head of Financial Services, showing progress made in delivering interim financial management arrangements following the retirement of HIE's Director of Finance and Corporate Services. These arrangements cover the period between the previous Director's retirement at the end of March 2017, and the new Director taking up his post on 4 July. The Director of Regional Development had taken on oversight of Finance Director duties in this interim period. The Head of BIIA was leading on information systems issues, and additional external support had been secured. The Committee was satisfied that these measures were appropriate and provided adequate assurance that HIE had considered and addressed the risks associated with this interim period.

19 HMRC update

[Redacted] of EY joined the meeting by phone.

The Committee considered the outcomes of an employment tax compliance review that had been carried out on HIE by HM Revenue and Customs. The review is part of a normal HMRC process to ensure all employers are correctly applying tax legislation. HIE had engaged with EY accountants to provide advice in relation to the review and assist the organisation with its response. A number of recommendations had resulted and these were now being implemented to ensure HIE's compliance with the relevant legislation. In particular, the Committee asked the Chief Executive to ensure that a revised travel and subsistence policy would be implemented as quickly as possible.

[Redacted] left the meeting.

PLANNED ACTIVITY GNÌOMHAN PLANAICHTÉ

20 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. It was noted that, in line with HIE's updated approach, increased attention was being focused on ensuring that there was clarity on the top corporate risks and that there was increased attention to accountability and visibility on actions being taken in response to these risks. This paper showed that, in May 2017, HIE had identified six top corporate risks and that actions were being taken in response to each of these.

In discussion it was clarified that likelihood and impact factors are considered in individual business unit registers, and the top corporate risks are those which have been assessed as the most significant following review. The Committee welcomed the use of the risk register to inform the agenda of the Board and Risk and Assurance Committee.

21 Customer feedback report 2016/17

The Head of BIIA introduced the customer feedback report for 2016/17. This provided a summary of customer feedback activity in the year, incorporating compliments and complaints, and an overview of requests received under the Freedom of Information (Scotland) Act and Environmental Information Regulations, and described next steps in delivering HIE's wider customer service agenda.

The Committee noted that the nature of freedom of information requests had changed over recent years, with many more complex requests creating challenges in meeting expectations. The new data protection requirements which will be introduced in 2018 were highlighted and it was noted that HIE was taking steps to understand fully the implications and actions required.

It was also noted that HIE had undertaken customer research linked to the Digital HIE programme. This had provided valuable insights into how customers would like to engage with HIE, and would be used to improve service design and information provision.

22 Business Improvement and Internal Audit plan

Janie Sheridan joined the meeting.

The Business Improvement Manager introduced HIE's Business Improvement and Internal Audit plan for 2017/18. It was noted that, in addition to identifying priorities for the BIIA team, this plan identified the priority improvement areas for the wider organisation.

The Committee was provided with information about the approach taken to developing this plan which included: a review of key controls and systems; consideration of the current operating environment; emerging issues, and changes to the regulatory and operating environment. The current risks faced by the organisation also informed the plan priorities and it was noted that there was flexibility in the plan to respond to emerging issues and risks.

It was noted that HIE's approach to business improvement was aligned to best practice models and guidance. In terms of deliverables, the programme of business transformation enabled by Digital HIE was highlighted as were a number of specific assurance reviews that had been identified.

The Committee endorsed the plan and noted the comprehensive approach taken to its development.

Janie Sheridan left the meeting.

23 Risk and Assurance Committee annual plan

The Head of BIIA presented the Risk and Assurance Committee Annual Plan for 2017/18. This plan aims to support the Committee in delivering its role effectively and to ensure its agenda is focused on both planned assurance and emerging issues.

The Committee was comfortable with the robust approach taken to developing the plan, noting that it was informed by HIE's risk register and that future agendas would include reports from senior responsible owners on relevant subject matters and reports relating to HIE's group companies. The Committee also welcomed the continual review of its development activity.

24 Date of next meeting

The next meeting of the Risk and Assurance Committee will be held at An Lòchran, Inverness Campus, on Tuesday 5 September.

Chris Roberts
Sandra Dunbar
7 June 2017