

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

**MINUTE OF THE MEETING HELD AT AN LÒCHRAN, 10 INVERNESS CAMPUS
TUESDAY 5 SEPTEMBER 2017**

PRESENT:

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

IN ATTENDANCE:

Charlotte Wright	Chief Executive
Nick Kenton	Director of Finance and Corporate Services
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
Donna Chisholm	Regional Head of Sectors, Innovation and Programmes, item 15
Felix Spittal	Northern Innovation Hub Senior Project Manager, item 15
Graeme Harrison	Area Manager, Orkney, item 16
Harvey Stevenson	Head of Strategic Projects, Orkney, item 16
Kathy Ferguson	Business Development Support Officer

1 Welcome and apologies

The Chair welcomed everyone to the meeting. Apologies were received from Donald MacDonald.

2 Declarations of Interest

The Head of Business Improvement and Internal Audit (BIIA) declared that she is a Trustee of the HIE Superannuation Fund. There were no other declarations of interest.

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

The minute of the Committee meeting held on 7 June 2017 was approved with the following amendment: Item 13 – reference to the August Risk and Assurance Committee meeting to be changed to September.

4 Matters arising from the meeting held on 7 June 2017

a. (Item 4) Matters arising: Update on broadband connectivity

Recognising the importance of digital connectivity for economic and community development, HIE's ambition is to improve connectivity in all areas of the region and to build on the current rollout programme of fibre broadband. HIE is actively liaising with the Scottish Government on options to achieve the best outcome for the Highlands and Islands.

The Chief Executive updated the Committee following her attendance at a meeting of the Government Programme Board the previous week where discussion took place on the Scottish Government's upcoming R100 procurement. Options remained open for the Scottish Government to delay the R100 procurement until detail of the UK offering is known, along with recent announcements made by BT. The Scottish Government would then be in a better position to select the best deal for Scotland.

b. (Item 13) Risk and Assurance Committee effectiveness review

Noting that it had been difficult to arrange time to complete the Committee's effectiveness review, the Chair requested that a meeting be arranged on the afternoon of 11 December, in advance of the HIE Board meeting, to finalise the exercise. Sandra Dunbar agreed to arrange for a meeting request to be issued to members.

c. (Item 21) Customer feedback report 2016/17

With respect to new Data Protection regulations due to come into effect in 2018, the Chair requested that an updated report be presented to the Committee at the next meeting on 5 December 2017.

d. (Item 22) Digital HIE

The Chair requested that an update on Digital HIE be presented to the Committee at the next meeting on 5 December 2017. It was agreed that Digital HIE should be a regular topic at Risk and Assurance Committee meetings, and form part of the BIIA update going forward.

ANNUAL ACCOUNTS CUNNTASAN BLIADHNAIL

5 HIE annual report and accounts 2016/17

The Director of Finance and Corporate Services thanked the Audit Scotland team and the HIE Finance Team, particularly Andrew Jenkins, for their diligent work on the HIE annual report and accounts 2016/17. Mr Kenton highlighted that HIE had achieved a successful year of investment and also met all of the key operating measures, despite uncertain economic conditions.

There had been a technical overspend against annually managed expenditure (AME) that was related entirely to the increase in pensions deficit during the year and had no impact on the cash position. The overspend had been agreed with Scottish Government but because the figures had only been finalised after the Spring Budget Revision it had not been possible to adjust HIE's opening 2016/17 budget to accommodate this. Marion McCormack confirmed that the technical overspend had been agreed with the Scottish Government and that other public sector agencies were in a similar position.

The Risk and Assurance Committee gave its approval to the Chief Executive as Accountable Officer to proceed to sign off the 2016/17 annual accounts. The Chair thanked HIE staff for their work in delivering the financial outturn and thanked Audit Scotland for concluding the audit.

6 Audit Scotland draft annual report from 2016/17

The Associate Director, Audit Scotland, introduced the final draft 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 for HIE had been prepared, and it was recommended that this could be enhanced through the use of scenario planning, a proposal that was welcomed by the Chief Executive.

The Associate Director, Audit Scotland, highlighted the increasing public expectation for transparency across the public sector. The Chair noted the need for greater transparency while acknowledging that organisations required space and time to consider certain matters, for example those of a commercially confidential nature, without all information being made public. The Associate Director confirmed that Audit Scotland recognised this requirement and was currently preparing guidance for public sector organisations. The Chief Executive noted that, as part of HIE's current review of its approach to engagement, it was reviewing options for increased openness.

Mr Small thanked HIE for facilitating the audit process. A review of the process and planning for 2017/18 will be undertaken in the next few weeks.

Work on the financial statements was substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, it was anticipated that Audit Scotland would be able to issue an unqualified report on 5 September 2017.

The Chair thanked Audit Scotland for a very thorough and positive report.

7 Letter of representation from the HIE Chief Executive

The Committee noted the contents of the annual Audit Scotland letter to those charged with governance, and the letter of representation to Audit Scotland. It was noted that, subject to the satisfactory conclusion of any outstanding matters, Audit Scotland proposed to issue an unqualified audit opinion.

Audit Scotland noted that there was one outstanding issue relating to the valuation of a HIE investment, and the Chief Executive reported that the company concerned was continuing to explore options. Audit Scotland was content that HIE had appropriately considered this issue.

In response to a question relating to HIE's pension obligation and going concern position, the Chief Executive informed the Committee that she had received appropriate reassurance from the Scottish Government in relation to the Scottish Government's ongoing support. Marion McCormack confirmed this position. The Committee was informed that two changes were being made to the final Letter of Representation and agreed that this letter could now be signed by the HIE Accountable Officer and returned to Audit Scotland.

8 Subsidiary companies annual report

- a. HIE Ventures**
- b. Wave Energy Scotland**

The Head of Financial Services presented the audit findings letters for the year ended 31 March 2017 for HIE subsidiary companies HIE Ventures and Wave Energy Scotland. Mr

Jenkins confirmed that both sets of accounts were unqualified and available for inspection. The Committee was pleased to note this outcome.

9 BIIA significant transactions 2016/17 composite report

The Committee welcomed a report summarising the findings of the significant transactions work in relation to the 2016/17 accounts which was undertaken to ensure no contravention of HIE procedures relating to the approval and processing of payments.

The Head of Business Improvement and Internal Audit noted that 12 projects funded from Block A had been subject to review, covering 40% of the HIE Block A expenditure. Detailed reports covering each transaction had been agreed with the project officer and shared with Audit Scotland. No significant issues were found that required changes to the accounts. Recommendations had been made for process improvements and these will be taken forward. Audit Scotland confirmed they had reviewed the BIIA work in this area and could place reliance on this, noting the significant level of assurance it provided them.

10 Final certificate of assurance

The Committee welcomed the proposed final certificate of assurance for 2016/17. As there were no significant matters arising, this was approved.

11 HMRC compliance update

The Head of Financial Services presented an update on the paper submitted to the Risk and Assurance Committee in June 2017.

Since the paper was written, HMRC had responded on a number of points. These included:

- Clarification from HMRC of the tax due for internal interview expenses;
- Agreeing HIE's position not to tax the Cycle to Work scheme, and
- Confirming the amount of tax HMRC will seek to recover from reimbursed phone bills and on non-executive directors' travel to Inverness.

All amounts were in line with figures previously estimated by EY, HIE's tax advisers. There were two outstanding issues:

- Benchmark rates and meals – expenses – a formal response was being prepared by HIE.
- Dual workplace – further information was required by HMRC on two members of HIE staff.

In-depth advice was being sought from EY. It was estimated that HMRC would respond in six to eight weeks.

The Director of Finance and Corporate Services acknowledged that there could be some reputational risk in the event that HIE were to lose its case with HMRC, but told the committee that he was content with the detailed and expert advice that HIE had received from EY, and comfortable with the position that HIE had taken to date. However, there was a need to consider potential options in the event that HIE was unsuccessful in contesting some outcomes from the Compliance Review. Following advice from EY, and pending a conclusion of the HMRC review, it was agreed that dual workplace practice should continue.

12 a. HIE travel policy options b. HIE draft business travel policy

The Committee was assured and comfortable that a process of rigour had been undertaken when updating the draft business travel policy. It was agreed that future changes to the policy would need to keep up with any updated advice from HMRC. The policy will be finalised by the HIE Leadership Team.

EMERGING ISSUES **CÙISEAN LÀITHREACH**

13 Pension strategy update

The Director of Finance and Corporate Services updated the Committee on progress to address the significant deficit in the HIE Superannuation Scheme. The Trustees continue to monitor the Scheme's funding position. While this had improved since the last update letter to the HIE Board in 2016, it was still at a level that was not clearly sustainable without additional funding, whether direct or indirect, using contingent assets or other funding arrangements. The Trustees proposed bringing forward the Scheme's strategy review to 2017 and would report back to the HIE Board in February 2018. Following the review, HIE will need to take a view on what action to take in advance of finalising budgets for 2018/19. In the meantime, HIE will keep the Scottish Government up to date with progress.

The Committee Chair asked the Director of Finance and Corporate Services if he thought it would be wise to await the results of the actuarial valuation (due April 2018) before taking action to address the deficit. The Director agreed that there was a need to proceed with caution and that HIE should form a sense of the scale of the deficit arising from the revised valuation before taking any significant action.

14 Draft Public Services Reform Act report

Under the Public Services Reform (Scotland) Act 2010, HIE and other public bodies in Scotland have a duty to publish annual public statements in relation to expenditure in the following areas:

- Public relations
- Overseas travel
- Hospitality and entertainment
- External consultancy

In addition, the Act requires public bodies to publish details on any payments with a value in excess of £25,000 and employees/members who receive annual remuneration in excess of £150,000. The timing of the report is now aligned with the preparation of the HIE accounts.

It was noted that no employee/member had received remuneration over £150,000. In relation to payments made in excess of £25,000, some draft descriptions would be clarified before the report was finalised. A detailed explanation of the services provided by Hymans Robertson would be presented in a report to the Risk and Assurance Committee in December 2017.

The Committee welcomed this report and commented that it was the responsibility of the whole organisation, and not just the Finance and Corporate Services directorate, to work towards 'Efficiency, Effectiveness and Economy'.

15 Northern Innovation Hub project governance

Donna Chisholm and Felix Spittal joined the meeting.

Mr Spittal presented a paper setting out the governance, monitoring, reporting, financial management and risks relating to the Northern Innovation Hub (NIH).

External Governance – The Inverness and Highland City-Region Deal Programme Board is convened by the Highland Council and is responsible for all the City-Region Deal projects. It reports to the Highland Council Places Committee and is chaired by the authority's Director of Planning and Development, Stuart Black. HIE's representative on the committee is Donna Chisholm, Regional Head of Sectors, Innovation and Programmes.

Internal Governance – To provide direct oversight of the NIH, a Programme Board will be established in September 2017. It will meet quarterly and involve key stakeholders such as the Highland Council, Scottish Council for Development and Industry (SCDI) and the Federation of Small Businesses (FSB). Its function will be to provide external project assurance and monitor progress of the NIH against the business case. The Programme Board will be chaired by HIE's Regional Head of Sectors, Innovation and Programmes.

A HIE programme team will be established to provide internal project assurance as well as co-ordination with other HIE activity. The chair of the programme team will be the Regional Head of Sectors, Innovation and Programmes.

The Northern Innovation Hub will receive funding from three sources: The Inverness and Highland City-Region Deal; the European Regional Development Fund (ERDF), and HIE grant-in-aid.

It was noted that the top project risk related to a potential lack of flexibility in spend profiles. The final business case for the NIH outlined a spend profile for 2017/18 which had slipped as UK Government approval had taken longer than anticipated. Work was ongoing to mitigate potential risks to HIE. Donald MacRae asked Mr Spittal to consider all options available to mitigate risks.

Marion McCormack informed the committee that the Scottish Government was looking at how to work with the Highland Council on phasing funding, and would raise this in a call with UK Government colleagues this week. Ms McCormack explained the challenges around City-Region Deals paying out in advance of need. She assured the committee that Scottish Government and the Highland Council were working collaboratively to reduce risks. The Chair asked Mr Smail if Audit Scotland's work programme included review of the city deals, Mr Smail noted that this was an area of work Audit Scotland was considering.

The Committee welcomed the report and asked for further updates, which should include progress on risk mitigation activity.

Donna Chisholm and Felix Spittal left the meeting.

16 Update: Orkney Research and Innovation Campus (ORIC)

Graeme Harrison and Harvey Stevenson joined the meeting.

HIE's Orkney area team presented an update on progress towards creating the Orkney Research and Innovation Campus to capitalise on the islands' international lead in the marine energy sector. In particular, the update described actions undertaken since a report to the Risk and Assurance Committee in June 2017 in progressing the formal establishment of the HIE/Orkney Islands Council (OIC) joint venture, the phase 1 capital works programme for ORIC, and HIE's own internal project management arrangements. Mr Harrison confirmed that partnership arrangements were currently working well, and that the project was progressing on schedule.

Mr Stevenson stated that discussions to date had resulted in broad agreement between both parties on all matters. This paved the way for the preparation of the final draft version of the LLP agreement by Burness Paull solicitors, acting on behalf of both HIE and OIC. Once this

had been formally agreed by both partners, work could also progress on the wider suite of legal documents required to enable the LLP to come into being by the target date of December 2017.

It was understood that OIC intended to transfer its relevant property into the ownership of the LLP immediately it was established, with the intention that HIE would make an initial cash contribution to match the valuation of the property. However, staff were currently reviewing the position and pursuing various options in line with HIE's budget allocation for ORIC in 2017/18. The Scottish Government sponsor team was looking at the possibility of phasing payments.

A specific approval was required from the Scottish Government before the proposed 50/50 ORIC JV arrangement could be formally entered into. A paper was currently with the sponsor team and would be presented to the Minister for approval. A further update will be provided to the HIE Board, which is due to meet in Orkney in October 2017.

Due to the challenging timescales for the delivery of this project, the Orkney area team planned to request that the HIE Board assign delegated authority to the Leadership Team to give formal approval of award of the construction project. Given the nature of the transaction, the Committee was in agreement with this proposal.

A formal internal project board had been established to support the delivery of ORIC, manage the project risk process and realise the long-term benefits that the project will bring. HIE and OIC have agreed that the ORIC LLP will operate with its own board of seven members, comprising three nominees from OIC, three nominees from HIE, and an independent chair. The appointment of the chair will be one of the first actions of the new LLP Board. The project board will work closely with the Director of Finance and Corporate Services. Donald MacRae recommended that the chair is appointed as soon as possible.

Mr Smail, Associate Director, Audit Scotland stressed the importance of robust governance arrangements and was pleased to see the Committee receiving regular updates.

The Committee discussed the risk report in detail and some suggestions were made on additional risks to consider. Mr Stevenson assured the Committee that the team was working towards an appropriate timescale with slippage contained within a three-to-six month period.

The Chief Executive noted that the paper required to be updated with respect to a reference to the Scottish Government Regeneration Fund and to note that provision for a HIE loan was no longer required.

The Committee was content with the paper and proposed actions, and looked forward to further updates as the project progressed.

Graeme Harrison and Harvey Stevenson left the meeting.

PLANNED ACTIVITY GNIOMHAN PLANAICHTE

17 Business Improvement and Internal Audit (BIIA) activity report to 31 July 2017

The Head of BIIA presented a report summarising the activities of HIE's Business Improvement and Internal Audit team for the four-month period to 31 July 2017. During this time, the team had delivered 23 draft reports, with 22 of these issued within the target of 20 working days. In the same period, the BIIA team provided 207 pieces of systems advice, 185 of which were provided within a target of five working days. The average time taken was 2.5 days.

In response to a question from Ailsa Gray, the Head of BIIA acknowledged the high workload of the team, but stressed that the BIIA team needed to keep focused and use resources appropriately. It was also noted that external support had been secured through a new procured contract for internal audit support and through arrangements with partners and with the Scottish Government Digital Transformation team. Ailsa Gray offered the help of the Risk and Assurance Committee if at all appropriate. The Chair acknowledged that BIIA is a very important area of the organisation and provides the Board with reassurance.

INFORMATION ONLY

18 Risk register – August 2017

The Head of BIIA presented HIE's most recent corporate risk register, compiled following the 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 increased attention to accountability and visibility on actions being taken in response to these risks. This paper showed that, in August 2017, HIE had identified five top corporate risks and that actions were being taken in response to each of these, with updates being provided to the Leadership Team.

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 HIE Board and Risk and Assurance Committee.

19 National fraud initiative data matches final report

The Head of BIIA presented a report which was prepared following the upload of data to the National Fraud Initiative (NFI) 2016/17. HIE was provided with a list of data matches, including some which were noted as key or recommended matches. This work was undertaken to establish if there were any areas of concern noted and if so, what further action was required.

The review concluded that, whilst matches had been identified, the analysis of these did not highlight any areas of significant concern. However, there were opportunities to review registers of interests and creditor standing data.

The Head of BIIA informed the committee that HIE had recently received a recovery equal to the amount of fraud perpetrated by a client in 2012. This reflects HIE's zero tolerance to fraud, and was welcomed by the Committee. A webinar on 'Protecting your business against fraud' had been arranged for HIE staff on 21 September, in association with the Bank of Scotland.

The Committee noted the report.

20 Cyber security update

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

The Committee agreed to keep this topic on future agendas. It was agreed to invite Paul Clark, EIS, to the next meeting to report on actions being taken to enhance cyber security.

STANDING ITEMS CUSPAIREAN COTHROMACH

21 Date of next meeting

The next meeting of the Risk and Assurance Committee will be held at An Lòchran, Inverness Campus, on Tuesday 5 December 2017. An additional meeting to conclude the Committee's effectiveness review will also be held on Monday 11 December 2017.

Kathy Ferguson
Sandra Dunbar
5 September 2017