

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

**MINUTE OF THE MEETING HELD AT AN LÒCHRAN, 10 INVERNESS CAMPUS,
TUESDAY 6 MARCH 2018**

PRESENT:

Alistair Dodds (Chair)
Ailsa Gray (by telecon)
Donald MacDonald

IN ATTENDANCE:

Charlotte Wright	Chief Executive
Nick Kenton	Director of Finance and Corporate Services
Sandra Dunbar	Head of Business Improvement and Internal Audit (BIIA)
Marion McCormack	Head of Sponsorship, Scottish Government
Jill Rosie	Enterprise Sponsorship Manager, Scottish Government
Chris Roberts	Head of Corporate and Media Relations
Maggie Bruce	Senior Audit Manager, Audit Scotland
Andrew Jenkins	Head of Finance, items 1 - 4a; 9 - 11
Marie Mackintosh	State Aid Manager, item 6
Graeme Harrison	Area Manager, Orkney, item 6
Harvey Stevenson	Head of Strategic Projects, Orkney, item 6 (by telecon)
Susan Smith	Head of Business Development, item 7
Allan McIlwaine	Senior Business Development Manager, item 7
Paul Clark	Chief Information Officer, EIS, item 8 (by telecon)
Ian Considine	Head of Procurement, item 12
Jeff Foot	Head of External Funding and Investment, item 17

1 Welcome and apologies

The Chair welcomed everyone to the meeting. Apologies had been received from Donald MacRae.

2 Declaration of interests

There were no declarations of interest concerning any item on the agenda.

3 To approve the minute of the meeting held on 5 December 2017

The minute was approved, with one correction.

4 Matters arising

a Pensions expenditure – Hymans Robertson, March 2018

The Committee welcomed a paper from the Head of Finance, showing details of payments over £25k in 2016-17 to pensions consultants Hymans Robertson. This showed that the majority of

payments, all of which related to the HIE superannuation scheme, had been HIE and staff pension contributions.

In response to questions, the Head of Finance clarified some terminology used in the report and the Director of Finance and Corporate Services confirmed that a lump sum paid into the fund by HIE had been agreed by the Board and was in line with the HIE pension recovery plan. It was noted that Hymans Robertson had been appointed to manage the HIE superannuation fund in May 2015.

Andrew Jenkins left the meeting.

b General Data Protection Regulation (GDPR)

The Chair requested an update on HIE's plans to ensure full compliance with the new General Data Protection Regulation (GDPR), due to come into effect on 25 May 2018.

The Head of Business Improvement and Internal Audit (BIIA) confirmed that an internal project team was making good progress and HIE was taking steps to ensure that the priority requirements for the new environment would be in place. Specialist advice and support had been secured from Shepherd and Wedderburn, and a review carried out to identify actions necessary to ensure compliance.

Interviews had been held for the key post of GDPR project management support, and an appointment was expected to be made shortly. In addition, HIE was collaborating with partner bodies, including Scottish Enterprise and Skills Development Scotland, to share resources and guidance.

5 Matters arising from the HIE Board meeting on 13 December 2017

There were no matters arising from the HIE Board meeting of 13 December 2017 that were not already covered on the Committee agenda.

EMERGING ISSUES CÙISEAN LÀITHREACH

- 6 a Orkney Research and Innovation Campus update**
- b Orkney Research and Innovation Campus risk actions**

Graeme Harrison and Harvey Stevenson joined the meeting.

HIE's Orkney area team updated the Committee on progress with the delivery of the Orkney Research and Innovation Campus (ORIC), a multi-disciplinary academic / business campus, based around Orkney's expertise in marine energy and sustainability. The report detailed actions to formally establish a joint venture between HIE and Orkney Islands Council (OIC) to develop the project, and to initiate the phase one capital works programme.

It was expected that a formal limited liability partnership (LLP) between HIE and OIC would be in place shortly, following detailed discussions. A board had been established, comprising three representatives each from HIE and OIC and an independent chair (yet to be appointed), and would hold its first meeting on 29 March 2018. Following procurement, including value engineering to keep costs within the approved budget, a successful bidder had been identified for the phase one construction, and a contract award was imminent, following conclusion of legal matters. Advice on tax matters had been obtained, and would be reviewed by specialists Scott Moncrieff.

The Committee thanked the Orkney team for the progress made to date, and endorsed the risk action plan that had been prepared for the project. Members welcomed both the ambition of the project and the steps that were being taken to exercise effective budget control and fully understand the tax position, which could have an impact on potential tenants as well as the LLP partners.

Updates will be brought back to future Committee meetings, and progress will be reported to the Scottish Government through regular quarterly meetings with the Chair and Chief Executive of HIE.

Graeme Harrison and Harvey Stevenson left the meeting.

7 Cairngorm update

Susan Smith and Allan McIlwaine joined the meeting.

a Update on company changes

The Head of Business Development presented a paper updating the Committee on recent changes to the ownership and name of Natural Retreats (UK) Ltd, the company providing management services on behalf of Natural Assets Investments Ltd (NAIL) and CairnGorm Mountain Ltd (CML). Effective from November 2017, the company name had changed to The UK Great Travel Company Ltd. The new business is owned by a small group of UK-based shareholders.

Potential implications for operations at Cairngorm, and for contractual arrangements involving HIE, had been carefully examined, with independent legal advice obtained to accompany HIE's own due diligence. It had been concluded that the changes in name and ownership had no effect on either operational or contractual matters. The Committee was reassured by this, and welcomed confirmation that guarantees provided by NAIL to HIE at the time Natural Retreats (UK) Ltd had been appointed as operator of the Cairngorm facilities, remained in place.

b Protocol for dealing with information requests and potential community interests

The Committee considered a draft protocol for stakeholder engagement, information management and conflict of interest that HIE staff had prepared in response to the present high level of public and stakeholder interest in Cairngorm Estate. Much of the discussion focused on the sensitivities attached to HIE having a number of distinct roles: as the landowner of the estate; as account manager of the current operating company, and as a key provider of advice and expertise on a potential community asset transfer. While the draft protocol was welcomed, it was decided that the range of risks associated with these issues should be considered in greater detail, with an update provided for further discussion at the next meeting of the Committee.

Susan Smith and Allan McIlwaine left the meeting.

8 Enterprise Information Systems (EIS) update on strategy, service and security

Paul Clark joined the meeting.

The Chief Information Officer, Enterprise Information Systems, presented an update on measures to ensure robust cyber security arrangements were being applied, along with a summary of improvement themes that had been identified as priority areas by HIE and EIS, and actions that were being taken to address them. This included a new business strategy to ensure that HIE's IT services and equipment were aligned with HIE's current needs and its business transformation programme; clear definition of service requirements, and the respective roles

and responsibilities of HIE and EIS; security; project management; continuous improvement; budget and financial management, and internal control arrangements.

The Committee endorsed the actions identified in both the cyber security and business improvement plans. In discussion, members explored the relationship between HIE and EIS, receiving assurance that this was generally productive and focused on clear outcomes that the improvement plan described above had been designed to deliver.

Both partners were committed to team working and recognised the importance of engagement and communications to manage day-to-day tasks and to evolve information services to meet new or evolving challenges such as GDPR and cyber security.

Paul Clark left the meeting.

9 HMRC tax update, March 2018

Andrew Jenkins rejoined the meeting.

The Director of Finance and Corporate Services updated the Committee on two reviews being carried out by Her Majesty's Revenue and Customs (HMRC), relating to employment tax and VAT compliance, along with work that HIE was undertaking, with professional advice, to review all of its tax-related processes.

On employment tax, it was noted that a definitive ruling from HMRC on the issue of dual workplaces had not yet been delivered, and the Committee agreed that HIE should maintain present arrangements while this matter continues to be explored.

10 *[Item removed in the interests of the effective conduct of public affairs].*

11 Year-end financial management update

The Director of Finance and Corporate Services presented a paper to update the Committee on HIE's forecast financial out-turn for 2017-18, and steps being taken to deliver a balanced year-end position.

Specific challenges at present included uncertainty over the final budget for Wave Energy Scotland (WES), the HIE subsidiary funded by the Scottish Government, and managing a large sum that had been recently received from the Scottish Government in respect of a future investment that HIE had agreed to make, subject to certain conditions, in a large-scale renewable energy project.

The Committee welcomed the update, and stressed the importance of continuing to ensure that WES was funded at an appropriate level to meet its operational and strategic goals to strengthen Scotland's wave energy sector.

Andrew Jenkins left the meeting.

12 HIE procurement strategy

Ian Considine joined the meeting

The Head of Procurement presented the latest version of HIE's procurement strategy which is refreshed annually, as required by legislation.

The Committee welcomed the strategy and endorsed its principles. Discussion highlighted the need for targets to be specific and challenging, and it was agreed that these would be reviewed before the strategy was finalised. In particular, the Committee was keen to see robust measures in place to ensure that HIE's procurement practices helped to deliver clear community benefits, and that suppliers implemented fair work practices and met living wage obligations. It was agreed that a more detailed paper on realising community benefits, which the Procurement team had already prepared, would be circulated to Committee members following the meeting.

The Chief Executive informed the Committee that HIE had won a national award for Procurement Team of the Year. The Chair congratulated the team on this achievement, and thanked the Head of Procurement for a clear and informative paper.

Ian Considine left the meeting

PLANNED ACTIVITY **GNIOMHAN PLANAICHTE**

13 Risk register at January 2018

The Committee noted HIE's corporate risk register, showing a range of risks allocated against agreed themes, and their movement over time. HIE regards risk management as a continuous improvement activity and the agency's approach was being developed on an ongoing basis with the involvement of management, the Committee and the full Board.

This paper focused on the most significant risks to HIE at the present time, drawn from business unit registers and Leadership Team and Board discussions. It was agreed that the present approach to risk reporting, whereby the Board had a key role in strategic discussion and the Committee focused on governance issues, continued to be relevant. The report's greater clarity on top risk themes was welcomed.

14 Risk reporting schedule at January 2018

The latest risk reporting schedule was presented for information. In response to a question from the Chair, the Head of Business Improvement and Internal Audit confirmed that this is discussed at Leadership Team and used to determine the most significant risks that should be reported to the Board.

15 Risk appetite approach within HIE

The Head of Business Improvement and Internal Audit presented a discussion document describing steps being taken to define and develop a risk appetite environment within HIE. Input had been received from a small sub-group of the Board, and work undertaken to identify and learn from best practice in other organisations.

The Committee welcomed the report and endorsed the approach being taken to develop risk appetite. Discussion highlighted the importance of ensuring that risk appetite becomes embedded in the organisation's working practices. It was agreed that the description of HIE's approach should be revised to reflect more clearly its commitment to addressing geographical challenges and opportunities facing the region. Terminology used in the report was also discussed. Audit Scotland also welcomed the paper.

Updates will be provided to future Committee meetings as the approach to risk appetite is developed.

16 Business Improvement and Internal Audit update to 31 January 2018

The latest Business Improvement and Internal Audit report, summarising activity over the 10 months from 1 April 2017 to 31 January 2018 was noted for information.

17 HIE investment portfolio update, including loans and HIE Ventures Ltd

Jeff Foot joined the meeting

HIE's Head of External Funding and Investment presented a review of the agency's investment portfolio, incorporating shareholdings, loans and HIE Ventures Ltd. The programme of rationalising the share investment portfolio was continuing, and direct investment by HIE was now increasingly rare as the Scottish Investment Bank had become the main publicly-funded source for share investment in businesses. While HIE's investment portfolio had not generated the scale of returns that a private sector fund would seek, the Committee welcomed the significant non-financial impacts in economic terms (jobs, GVA) and in facilitating investment by the private sector.

The relative success of investment fund HIE Ventures Ltd was also noted. HIE Ventures had one remaining investment which could be sold later in the year, and the Committee will receive an update so that options for the fund's future may be considered. As well as looking at the fund's past performance, this paper will examine its potential future role in the context of changes taking place in the Scottish funding landscape.

The Committee noted that requests for HIE loan funding for working capital had increased and were not expected to decline in the foreseeable future, especially as access to commercial finance remained difficult for many small, developing businesses. It would be important to continue to consider the impact of potential loss, both cash and non-cash, in relation to loan funding, so that HIE's resources are used optimally. Changes in the funding landscape, including the proposal to establish a Scottish National Investment Bank and other initiatives, reinforced the need to consider carefully and strategically the best way to use HIE's resources to generate economic impacts and achieve best value.

Members highlighted the need to learn lessons from business failures and write-offs, and were assured by the Chief Executive that this was always done. At the same time, it was important that HIE maintained a strong risk appetite to achieve business and sectoral growth.

The Committee welcomed the report, and look forward to receiving further information at a subsequent meeting concerning the Scottish National Investment Bank, HIE Ventures SME funding and changes in the investment landscape.

Jeff Foot left the meeting

18 BIIA approach to significant transactions review

The Head of Business Improvement and Internal Audit (BIIA) presented a paper describing HIE's assurance activity to review significant transactions. This aimed to provide an appropriate balance of effort that was proportionate to the areas of greatest risk and where most value could be added. The Committee welcomed the report and agreed with recommendations on the approach to be applied in 2018-19.

A heading of 'Other expenditure' relating to Block A spend, was queried, and the Head of BIIA agreed to report back with a clearer explanation.

19 BIIA approach to internal control assurance process

The Committee welcomed and endorsed a report outlining HIE's approach to the annual assurance process that will be used to complete an internal control checklist and interim assurance statement to the organisation's sponsor team in the Scottish Government.

20 Annual report and accounts process update, March 2018

The Director of Finance and Corporate Services updated the Committee on progress towards compiling and publishing HIE's annual report and accounts 2017-18. It was noted that, following a request from the Economy, Jobs and Fair Work Committee of the Scottish Parliament, steps were being taken to accelerate the process and bring forward publication to 31 August 2018. The co-operation of Audit Scotland in aiming to achieve this shorter timescale was welcomed.

The Chair noted that the accounts would be considered at a meeting of the Risk and Assurance Committee in August, when it would be particularly important to ensure a quorum.

21 Audit Scotland annual plan 2017-18

The Senior Audit Manager, Audit Scotland, presented the national auditor's annual audit plan 2017-18 for HIE, noting that this followed the same format as last year. A new risk had been added in relation to the Enterprise and Skills Review, which would be applied to each of the four partner organisations that had been covered, and discussed with the Scottish Government.

The plan was noted.

22 Risk and Assurance Committee effectiveness report

The latest Risk and Assurance Committee effectiveness review was welcomed. This included details of a development programme for Committee members and the outcomes of a self-appraisal carried out by the Committee, in line with Scottish Government Audit Committee Handbook guidance.

The review document also recommended some changes to the Committee's terms of reference, and it was agreed that these would be submitted to the HIE Board for approval.

INFORMATION ONLY
FIOSRACHADH A-MHAIN

23 National Fraud Initiative post-legislative scrutiny report

The Committee noted a post-scrutiny report from the Scottish Parliament on the National Fraud Initiative. HIE had taken part in the initiative and contributed feedback to inform the Parliament's report.

24 Date of next meeting

The next formal meeting of the Risk and Assurance Committee will be in Inverness on Tuesday 5 June 2018.

A special meeting to review HIE's 2017-18 annual accounts will be held on 13 August 2018.

Chris Roberts
6 March 2018
HIEA 2017/00227