

**RISK AND ASSURANCE COMMITTEE**  
**COMATAIDH CHUNNART AGUS SGRÙDAIDH**

**MINUTE OF THE MEETING OF MONDAY 13 AUGUST 2018**  
**HELD AT AN LÒCHRAN, 10 INVERNESS CAMPUS, AND BY TELECONFERENCE**

**PRESENT:**

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

**IN ATTENDANCE:**

Charlotte Wright	Chief Executive
Nick Kenton	Director of Finance
Sandra Dunbar	Head of Business Improvement and Internal Audit (BIA)
Gordon Smail	Associate Director, Audit Scotland
Maggie Bruce	Senior Audit Manager, Audit Scotland
Jill Rosie	Enterprise Sponsorship Manager, Scottish Government (by teleconference)
Chris Roberts	Head of Corporate and Media Relations
Andrew Jenkins	Head of Financial Services, items 1 – 10
[Redacted]	[Redacted], Saffery Champness, items 1 – 10
David Oxley	Director of Business and Sector Development, items 11, 12, 13
Harvey Stevenson	Head of Strategic Projects, Orkney, item 12 (by teleconference)

**1. Apologies**

There were no apologies.

**2. Declaration of Interests**

There were no declarations of interests.

**3. To approve the minute of the Risk and Assurance Committee meeting on 5 June 2018**

The minute was approved.

As a matter arising from the minute, the Chair requested an update on progress to review and refresh the HIE corporate risk register. The Head of Business Improvement and Internal Audit confirmed that the annual refresh was now under way. Discussion had taken place with Leadership Team, and risk would feature as a topic in a planned strategic planning workshop, to take place at the next Board

meeting, on 28 August. Risks associated with community land and asset ownership had been raised at the last Board meeting and incorporated in the latest version of the register.

As a further matter arising, the Committee requested information on the proportion of spend on services that HIE procured for itself that went to SMEs, along with a geographical breakdown. The Director of Finance and Corporate Services reported that 56% of this spend was with SMEs, and undertook to provide a breakdown by local authority area.

**3a.** *[Item removed in the interests of the effective conduct of public affairs].*

#### **4. Matters arising from the HIE Board meeting on 26th June 2018**

There were no matters arising from the minute of the HIE Board meeting on 26 June 2018 that were not covered on the agenda.

### **Annual accounts**

#### **5. Audit Scotland – Draft Annual Report 2017-18**

##### **a. ISA580 covering letter**

The Associate Director, Audit Scotland, reported that the organisation’s audit of HIE’s 2017-18 annual accounts was substantially complete, with just two matters outstanding. It was expected that Audit Scotland would issue an unqualified opinion within the next 24 hours.

##### **b. Draft Annual Audit Report**

The Associate Director, Audit Scotland, presented the draft 2017-18 annual audit report for HIE. This concluded that the financial statements of HIE and its group gave a true and fair view of its financial position and net expenditure. The organisation had effective overall financial management arrangements, and had remained within its resource budget. Systems of internal control had operated effectively.

Audit Scotland welcomed progress made by HIE in conducting a review of its approach to financial planning, and expressed confidence that the revised model would provide a firm basis for this activity in the longer term. There were no specific concerns about HIE’s overall financial position. Effective governance arrangements were in place, and HIE was judged to be open and transparent in the way it conducts its business, with scope to develop its approach further. The auditors also noted that HIE had a well-developed performance management framework in place.

The Committee welcomed the report, noting that staff of both HIE and Audit Scotland had put in considerable effort to meet an accelerated timescale for production of the annual accounts that would align better with the Scottish budget enquiry conducted by the Economy, Jobs and Fair Work Committee of the Scottish Parliament. The challenge of setting and achieving ambitious performance measures was discussed, and it was agreed that HIE would review this issue, while continuing to work with Enterprise and Skills Strategic Board partners and the Scottish Government Analytical Unit to ensure that new measures being introduced would reflect HIE’s priorities and achievements. A recommendation to review skills and capacity required for the Finance team to operate as effectively as possible was also accepted.

The Committee thanked Audit Scotland and HIE staff for their hard work in meeting a demanding timescale and achieving an unqualified judgment on the 2017-18 accounts.

## **6. HIE Annual Report and Accounts 2017/18**

The Committee welcomed HIE's annual report and accounts for 2017-18, noting that these demonstrated a successful year for HIE, with all annual performance measures for outcomes either achieved or exceeded, while financial targets were also met. Subject to a small number of minor amendments that were noted, the accounts were approved.

## **7. Letter of Representation for HIE Chief Executive**

The Committee noted and endorsed the contents of the letter of representation from HIE's Chief Executive, as accountable officer, to Audit Scotland, confirming the veracity of the accounts.

## **8. Subsidiary Companies Audit Report**

The independent auditor from Saffery Champness presented a subsidiary companies report for the year ended 31 March 2018 relating to Wave Energy Scotland Ltd, HIE Ventures Ltd and Orkney Research and Innovation Campus LLP, the latter being a joint venture between HIE and Orkney Islands Council. It was confirmed that unqualified opinions had been given on the statutory financial statements of HIE Ventures and Wave Energy Scotland, and for the consolidation pack for Orkney Research and Innovation Campus.

The Committee welcomed these outcomes and thanked the independent auditor for a very clear and helpful report.

## **9. BIIA Significant Transactions Composite Report 2017/18**

The Head of Business Improvement and Internal Audit (BIIA) presented the Significant Transactions 2017-18 Composite Report, carried out by the BIIA team as part of its annual plan of work. This had reviewed 41% of the organisation's spend during the year, and highlighted one potential overpayment and one small underpayment. The report noted opportunities for business improvement, which would be followed up, and some wider compliance issues. Overall, the report concluded that substantial assurance had been achieved, with HIE demonstrating controls that were both robust and well-managed.

The Committee welcomed the report, with Audit Scotland noting that review of this kind provided an excellent level of assurance.

## **10. Final Certificate of Assurance**

The Committee noted and endorsed the wording of the Final Certificate of Assurance that will be presented by the HIE Chief Executive, as accountable officer, to the Scottish Government. Audit Scotland confirmed that they were content with the accuracy of the statement, and the assurance it provided.

## Emerging Issues

### 11. Cairngorm Mountain update

*David Oxley joined the meeting*

The Director of Business and Sector Development updated the Committee on matters concerning Cairngorm Mountain. This covered governance arrangements; stakeholder engagement; several aspects of HIE's contract with resort operator CML; infrastructure, including progress with a review of uplift equipment on the mountainside; estate management, and aspirations of a local community trust to acquire ownership of the estate. A high volume of information requests was also noted.

The Committee welcomed the update, probing governance arrangements in particular. The Director confirmed that oversight of these activities was obtained through a strategic programme board, which he chaired. Members expressed concern over a decline in Cairngorm's share of the Scottish snowsports market in recent years, and underscored the value of working towards more positive community relations. The Committee was assured that these issues were being discussed at high level between HIE and the operator. Further detail was requested on overhead costs, and it was agreed that this would be provided.

The involvement of legal firm Harper Macleod, as a subcontractor to EY, was noted. As the Chair of HIE has an interest in Harper Macleod, it was important that appropriate steps were taken to avoid any potential risk of a conflict arising.

### 12. Orkney Research and Innovation Campus update

*Harvey Stevenson joined the meeting by teleconference.*

The Orkney area team presented an update on Orkney Research and Innovation Campus (ORIC), a limited liability partnership (LLP) joint venture between HIE and Orkney Islands Council for which construction is currently under way in Stromness. The update covered progress in formally establishing the joint venture, including the upcoming appointment of an independent Chair for the ORIC board; management of the construction project, and tenant engagement. Next steps, following appointment of a Chair, which was expected in August, would include recruitment for an executive post.

The Committee welcomed the update, recognising the importance of effective project management being applied to establish strong governance, maintain pace and deliver the construction contract on budget. Current negotiations with tenants were noted, and the area team assured the Committee that they were being vigilant to avoid any potential risk of cost escalations. In response to a question, it was confirmed that appropriate insurance arrangements were in place for the LLP partners.

Further updates will be provided at key points as the project moves forward.

*Harvey Stevenson left the meeting.*

### **13. Space opportunity update**

*Martin Johnson joined the meeting.*

The Committee welcomed an update on ambitious plans to establish the UK's first spaceport, a vertical launch facility for satellites known as UKVL, in Sutherland.

The spaceport had been announced by the Prime Minister in July, along with funding from the UK Space Agency to two potential launch operators, and HIE had issued its own communications immediately afterwards. This had resulted in very widespread and positive media coverage. Legal agreement with UKSA had been achieved prior to the announcement, and it was agreed that a thorough review of the final signed legal document would be carried out. A programme board and a project board had been established and a project director appointed. Meetings had also been set up between HIE and representatives of projects in the Outer Hebrides and Shetland that were interested in pursuing opportunities in the space sector.

The Committee stressed the need to ensure robust governance arrangements were being put in place and would be practised effectively, including moving swiftly to agree and finalise clear terms of reference for the programme board and project board. Members were assured to hear that a positive relationship had been established with local crofters at Melness, on whose land the spaceport will be sited, and underlined the importance of working to maintain this.

*David Oxley and Martin Johnson left the meeting.*

### **14. Regulatory Environment Update:**

#### **a. Lobbying Act (verbal update)**

The Head of Corporate and Media Relations outlined steps HIE was taking to ensure compliance and advise clients and customers of their responsibilities relating to the Lobbying (Scotland) Act 2016, which came into force at the end of March 2018. A written report will be presented to a future meeting of the Committee.

#### **b. Criminal Finances Act**

The Director of Finance and Corporate Services presented a paper summarising the requirements of the Criminal Finances Act, as these relate to HIE, and confirmed that HIE was reviewing its procedures, and considering appropriate staff guidance and training to ensure compliance. It was agreed that regular updates would be presented to the Leadership Team and the Risk and Assurance Committee.

### **Planned activity**

### **15. BIIA Annual Plan 2018-19**

The Head of Business Improvement and Internal Audit presented a refreshed annual plan, covering 2018-19, that aimed to support HIE management in delivering priorities and achieving outcomes, and ensuring HIE is an effective and efficient organisation with high standards of governance and accountability.

In welcoming the plan, the Committee raised some concerns regarding the breadth of its scope and the volume of priority areas identified, which risked stretching resources too far. These points were

noted and it was agreed that the Head of BIIA and the Chief Executive would review the plan, aiming to identify a smaller number of key priorities on which particular attention and effort should be focused.

The Committee also endorsed comment from Audit Scotland regarding the importance of achieving a correct balance between business improvement work and assurance activities, both of which required careful planning, management and resource.

#### **16. BIIA Activity to 30 June 2018**

The Head of BIIA presented a report summarising business improvement and internal audit activity in the three months from April to June 2018. During this period, the BIIA team had delivered 33 outputs by way of reports, including 17 currently in draft, along with numerous presentations, papers, workshops or other activity contributing to business improvement or assurance.

The Committee welcomed the report, repeating comments made in relation to item 15 above concerning the scope of work undertaken and the importance of effective prioritisation.

#### **17. Collaboration in the Enterprise and Skills Space – Strategic Board Paper**

The Committee noted a paper that had been delivered to the Enterprise and Skills Strategic Board, focusing on understanding and improving opportunities for collaboration among partner agencies involved in delivering Scotland's enterprise and skills system. The paper highlighted the role of the Enterprise and Business Support System Steering Group, in which HIE is participating, to enhance customer journeys and service delivery.

#### **18. Risk Register**

The Committee noted the contents of the current HIE Corporate Risk Register, which had been presented to the HIE Board in June 2018, and confirmed that they were satisfied with the approach HIE was taking, including actions to introduce process improvements.

#### **19. Review of Audit Activity by Scott Moncrieff**

The Committee noted the findings of a review of HIE's audit activity carried out by Scott Moncrieff. The review concluded that HIE's internal audit methodology was good and consistent with the overall expectations of the Public Sector Internal Audit Standards.

A small number of inconsistencies in applying the agreed approach were noted, and it was recommended that a process review be carried out by the assurance staff responsible for implementing the approach.

#### **20. EIS Improvement Plan**

The Head of BIIA summarised the contents of a report prepared with HIE's ICT supplier EIS to define key improvement themes and action areas. The report considered both opportunities for closer alignment with enterprise and skills partners, and the requirement for HIE itself to benefit from high quality IT infrastructure and systems designed to meet business needs and support the delivery of excellent customer service.

The Risk and Assurance Committee welcomed the plan, and were content to be assured that its recommendations would be taken forward by the tri-partite programme board. The Committee should be updated if exceptional circumstances arose, but not as a matter of routine.

### **21. EIS Security Update**

The Director of Finance and Corporate Services gave an update on cyber security, showing how HIE was intending to support the Scottish Government Public Sector Action Plan for Cyber Resilience and work towards full compliance with national cyber security standards. The Head of BIIA noted that, in addition to working with EIS on this issue, HIE employed its own cyber security specialist.

The Committee endorsed the actions being taken, stressing the need for continued vigilance and high levels of cyber security awareness among staff across the organisation.

### **Standing Items**

#### **22. Date of next meeting – 4 December 2018**

The next meeting of the Risk and Assurance Committee is scheduled for 4 December 2018, in Inverness.

#### **23. Any other business**

There was no other business. The Chair thanked everyone for their input.

Chris Roberts  
13 August 2018