

**MINUTE OF THE MEETING OF THE RISK AND ASSURANCE COMMITTEE, HELD AT AN LÒCHRAN, INVERNESS, ON TUESDAY 10 JANUARY 2017 AT 12.00 HOURS**

**PRESENT:**

Alistair Dodds (Chair)  
Ailsa Gray  
Donald MacDonald  
Donald MacRae

**IN ATTENDANCE:**

Charlotte Wright	Chief Executive
Forbes Duthie	Director of Finance and Corporate Services
Sandra Dunbar	Head of Business Improvement and Internal Audit
Maggie Bruce	Senior Audit Manager, Audit Scotland
Marion McCormack	Head of Sponsorship, Scottish Government (by telecon)
Chris Roberts	Head of Corporate and Media Relations
Graeme Harrison	Area Manager, Orkney, item 10
Harvey Stevenson	Head of Strategic Projects, Orkney, item 10 (by VC)
[Redacted]	[Redacted], Burness Paull LLP, item 10 (by telecon)
Tim Hurst	Managing Director, Wave Energy Scotland, item 11
Mary Ann Schurei	Procurement Manager, item 12

**1 Welcome and apologies**

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

**2 Declaration of Interests**

The Chairman advised that the Interim Chief Executive had an interest in item 6, concerning matters arising from the meeting of 13 December in particular. It was agreed that Charlotte Wright would leave the meeting while this item was taken.

**3 To approve an amendment to the minute of the meeting held on 7 June 2016**

The amended minute of the meeting held on 7 June 2016 was approved.

**4 To approve the minute of the meeting held on 23 August 2016**

The minute of the meeting held on 23 August 2016 was approved.

**5 To approve the minute of the meeting held on 13 December 2016**

The minute of the meeting held on 13 December 2016 was approved.

## **6 Matters arising**

There were no matters arising from the minutes of 7 June and 23 August, 2016.

*Charlotte Wright left the meeting.*

The Head of Business Improvement informed the Committee that work was under way to complete the revision of an existing protocol that was designed to manage potential conflicts of interest that might possibly arise concerning the Interim Chief Executive. The revised version, incorporating comments made at the Risk and Assurance Committee meeting of 13 December 2016, would be circulated to members by email for comment and approval before being finalised and implemented.

*Charlotte Wright rejoined the meeting.*

## **7 Matters arising from the HIE Board meetings on 2 December and 13 December 2016**

There were no matters arising from the meetings of the HIE Board on 2 December and 13 December 2016.

## **EMERGING ISSUES**

### **8 Business Improvement and Internal Audit (BIIA) report: Specialist advice**

The Head of Business Improvement and Internal Audit (BIIA) presented the conclusions of an internal review of arrangements that had been put in place to deliver HIE's specialist advice framework. This framework, which had been awarded to PA Consulting following competitive tender in 2016, enables HIE account managed clients to benefit from the provision of specific expertise on a range of issues that will support and accelerate the growth of their enterprises. The review had found that good monitoring arrangements were in place, while also identifying opportunities to improve process efficiency and achieve greater value for money. These included establishing a strong gatekeeping role to manage and monitor all activity being undertaken through the framework, and a strategic board, comprising HIE and PA representatives, to oversee implementation of the new arrangements.

Discussion focused on the role of the gatekeeper, and on the procurement process for the framework, in which PA had been the sole bidder. The Head of BIIA was questioned on the outcome of a National Audit Office (NAO) report into another specialist advice contract held by PA, with UK Trade and Investment, and provided assurance that HIE had taken the findings of the NAO investigation into account prior to Board approval of the framework, and during HIE's own review. The Committee welcomed the report as a very thorough review, and endorsed the recommended actions for improvement, which were due to be delivered by the end of January. Further updates will be delivered to future meetings.

### **9 Business Improvement and Internal Audit (BIIA) report: Information systems business as usual assurance review**

The Head of BIIA presented the findings of an internal review of arrangements in place for 'business as usual' information systems (IS) activity in HIE, which is currently part of a shared services agreement, along with Scottish Enterprise and Skills Development Scotland, delivered through a core provider, Enterprise Information Systems (EIS). The report underlined the importance of an effective, customer focused business as usual IS environment, that can:

deliver access to services essential to business delivery; provide a stable platform for business transformation; maintain confidence regarding governance and security, and support cost efficiency and value for money. It identified several improvement opportunities, particularly concerning clarity of the role of EIS, service standards and business continuity arrangements, and recommended that a detailed service improvement and resource plan be put in place to by 31 March 2017. This plan will be closely aligned with other areas of activity, including the digital HIE programme, facilities management and information management.

In discussion, all members of the Committee stressed the critical nature of effective IS systems to any organisation, and made clear that the present quality of service obtained by HIE through the shared services agreement needed to improve. It was noted that the Director of Finance and Corporate Services was due to attend a meeting of the EIS project board, and the Committee gave him their full backing to obtain a higher quality of service provision through this relationship.

The Committee welcomed the report and endorsed its recommendation to put in place a detailed service improvement and resource plan. This plan should be brought back to a future meeting of the Committee for consideration.

## **10 Orkney Campus governance**

*Graeme Harrison, Harvey Stevenson and [Redacted] joined the meeting*

The Area Manager, Orkney, presented a paper on the structure and governance arrangements for a new £6.65m joint venture between HIE and Orkney Islands Council (OIC) for the Orkney Research and Innovation Campus (ORIC) in Stromness. Development of the campus through a joint venture, which was approved by the HIE Board in December 2016, aims to enhance Orkney's marine/renewable energy research cluster, including the test capability of the European Marine Energy Centre (EMEC) and the teaching and research expertise of Heriot-Watt University (HWU). The campus will be a regionally significant investment, creating conditions that are expected to increase activity, initiate new start companies, and create additional employment in academia and business ventures. The paper drew together recommendations based on a detailed options appraisal that had been developed through a workshop facilitated by external advisers Burness Paull LLP, and had considered both external best practice and previous HIE experience with joint ventures.

Discussion focused on the need to set and agree formal objectives and a detailed risk assessment for the project before the local authority pre-election period, which would begin in March. It was also clarified that a loan element of HIE's funding package had been included as a contingency measure and would only be implemented if required. Marion McCormack requested that the Scottish Government be kept informed of progress as the project develops, particularly as ministerial involvement may be required at a future date.

The Committee approved in principle the recommended limited liability partnership (LLP) model of joint venture proposed by the area team. As described in the paper, it was expected that this would create a new company, governed by a joint board representing both partners and chaired independently, with a clear mission statement and business plan. Within HIE, a project board and account team would be established, and a benefits realisation plan put in place. The area team will develop these proposals for approval by HIE's Leadership Team, and provide an update to a future meeting of the Risk and Assurance Committee.

*Graeme Harrison, Harvey Stevenson and [Redacted] left the meeting.*

## **11 Wave Energy Scotland stage gate process update**

*Tim Hurst joined the meeting.*

The Managing Director, Wave Energy Scotland (WES), gave a presentation recommending amendments to the previously agreed methodology for gaining Board approval for projects entering and progressing through the stage gate transition process that was designed to support wave energy developers through design and testing of innovative technologies. The changes were designed to introduce greater flexibility and pace to the timescales for approval being considered by the HIE Board, which would be of considerable benefit to the companies that were putting projects forward.

Committee members endorsed the principle of accelerating the decision making process for stage gate entry and transition, and confirmed that they would be willing to attend additional meetings outwith the scheduled Board calendar if required, either virtually or in person. It was agreed that the WES Managing Director would develop these proposals, adding the option to form a new sub-committee for this specific purpose, and with a view to implementing the revised process on a trial basis as quickly as possible. A paper including these recommendations would be submitted for decision to the next meeting of the HIE Board, on 7 February 2017.

*Tim Hurst left the meeting.*

## **12 HIE procurement strategy**

*Mary Ann Schurei joined the meeting.*

The Procurement Manager presented a new procurement strategy that had been developed for HIE and Wave Energy Scotland, as required by the Procurement Reform (Scotland) Act 2014. The strategy had been developed to support the implementation of HIE's Operating Plan and focused specifically on the how the agency will conduct procurement processes for goods and services valued over £50k. It was intended that the strategy be adopted and supported by all staff involved in procurement and contract management across HIE, and that regular updates on progress would be submitted to the Leadership Team. Specific procurement targets would be developed, systems developed to improve the transparency of spend analysis and tracking, a full contract register created, and future work plans collated to capture the need for future contracts and frameworks.

The Committee welcomed the strategy, drawing particular attention to the inclusion of measures to assess and deliver community benefits, such as targeted recruitment, education and training opportunities, supply chain initiatives, equality and diversity, and the use of Gaelic to achieve both cultural and economic benefits. The inclusion of provisions relating to carbon reduction and fair work practices was also commended. The Procurement team was encouraged to practise innovation in identifying community benefits, and to be specific when setting targets, including timescales.

*Mary Ann Schurei left the meeting.*

## **13 Audit Scotland correspondence on Scotland Can Do SCALE**

The Committee noted the contents of a letter from Audit Scotland, following review of documentation relating to the governance arrangements of the Scotland CAN DO SCALE programme, a partnership between HIE, Scottish Enterprise and the Scottish Funding Council. This confirmed that expenditure incurred by HIE had complied with procurement regulations.

## PLANNED ACTIVITY

### **14 Risk register**

The Committee noted the content of the latest corporate risk register, prepared following review of business unit registers and discussions with key individuals, and reflecting points raised by the HIE Board. This showed that, at November 2016, HIE had identified a total of 32 risks to be monitored and treated (20 strategic and 12 tactical). The Head of BIIA confirmed that work was under way, following a request from Board members, to identify more clearly a concise set of the most significant risks facing the organisation. Future reports would be redesigned to include this information. The inclusion in the current register of risks with a score as low as 10 was also questioned, and the Head of BIIA agreed to review these.

### **15 Business Improvement and Internal Audit update**

The Head of BIIA presented the latest Business Improvement and Internal Audit report, summarising activity in the eight months to 30 November 2016. This showed that the BIIA team had delivered 29 reports, with a further four in draft, and many further outputs in the form of presentations, papers, workshops, webinars and other activity to deliver business improvement and provide assurance. Particular focus was continuing to be devoted to the benefits to be derived for HIE customers, stakeholders and staff from the strategic application of digital technology. It was noted that HIE's Leadership Team now operated as the organisation's digital programme board, and that close relationships were being maintained and developed with the Scottish Government and other agencies to ensure progress in this area would be aligned with national priorities and outcomes.

The Chairman welcomed the report and offered the Committee's appreciation of the consistently high quality of the work carried out by the BIIA team.

### **16 European funding and State Aid update**

The Committee welcomed an update on current activity with regard to EU funding and State Aid between April and November 2016. It was noted that BIIA's work had covered a range of programmes, including structural funds, convergence, Scottish rural development and Interreg. Among other activities, an EC review of HIE's general block exemption scheme had been completed, tools developed to assist staff in identifying and dealing with firms in difficulty, and recommendations put forward on the most appropriate definition of 'date of granting'.

The Committee stressed the importance of ensuring that staff throughout HIE were equipped to understand and manage these issues, and that the burden did not fall disproportionately on BIIA staff. The Head of BIIA gave an assurance that relevant information and guidance was published on the HIE intranet and regularly updated, and that this was supported by knowledge sharing events including webinars to enable interactive participation by staff located across the Highlands and Islands.

### **17 Customer feedback – April to September 2016**

The latest HIE customer feedback report was noted, covering the period from April to September 2016, and including Wave Energy Scotland. This included an overview of compliments and complaints received, requests submitted under the Freedom of Information (Scotland) Act and Environmental Information Regulations, and an overview of next steps in delivering customer service. The Committee particularly welcomed the inclusion of these next steps as a means of identifying opportunities to deliver continuous improvement in this area.

### **18 National Fraud Initiative update**

The Committee welcomed a report on the National Fraud Initiative, a counter-fraud exercise which is co-ordinated every two years by Audit Scotland with a range of public bodies, external auditors and the Cabinet Office. The report included the findings of the 2014/15 initiative, which had highlighted two recommendations that were relevant to HIE, and set out plans for the agency's participation in the 2016/17 exercise, which the Committee endorsed. Following a question from the Chairman, Maggie Bruce confirmed that Audit Scotland was content with HIE's approach to this issue.

## **19 Business Improvement and Internal Audit follow-ups**

The Head of BIIA presented a report on follow-up actions relating to all key audit recommendations made in BIIA reports with an implementation date of up to and including 30 September 2016. The Committee welcomed the report, but expressed concern that five recommendations had not been implemented to date, and were being rolled forward to the next quarter. The Head of BIIA provided an assurance that these recommendations were all being pursued, and would be monitored by the Leadership Team.

## **20 HIE actions in response to Audit Scotland review: *Supporting Scotland's economic growth – the role of the Scottish Government and its enterprise agencies***

The Interim Chief Executive updated the Committee on follow-up actions that had been taken to address the three specific recommendations relating to HIE that had been in Audit Scotland's report, *Supporting Scotland's economic growth - the role of the Scottish Government and its economic development agencies*. The Committee endorsed the approach HIE was taking and welcomed the progress achieved to date in implementing Audit Scotland's specific recommendations.

## **21 Audit Scotland fee proposal**

The Committee noted the contents of a letter from Audit Scotland, detailing the anticipated level of fees to be applied for delivery of HIE's 2016/17 audit.

## **STANDING ITEMS**

## **22 Any other business**

Committee members noted that a training session organised by the BIIA team on the morning of 10 January had been a worthwhile exercise, providing valuable insights into the Scottish Government handbook best practice for audit committees and HIE's internal control environment, including its approach to risk management, and State Aid. A further session will take place before the next meeting, covering HIE's financial management and budget arrangements.

## **23 Date of next meeting:**

The next meeting of the Risk and Assurance Committee is scheduled for **Tuesday 7 March**.

Chris Roberts  
10 January 2017