



RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

**MINUTE OF THE HIE RISK AND ASSURANCE COMMITTEE MEETING HELD ON TUESDAY 05 MARCH 2019
AT AN LÒCHRAN, INVERNESS CAMPUS**

PRESENT: Alistair Dodds (Chair)
Angus Campbell
Donald MacRae
Belinda Oldfield (By telephone)

IN ATTENDANCE:

Charlotte Wright	Chief Executive (Part)
Morven Gibson	Shadow Board Member
Nick Kenton	Director of Finance and Corporate Services
Sandra Dunbar	Head of Business Improvement and Internal Audit
Gordon Smail	Audit Director, Audit Scotland
Maggie Bruce	Senior Audit Manager, Audit Scotland
Marion McCormack	Head of Better Regulation and Enterprise Sponsorship, Scottish Government
Jill Rosie	Enterprise Sponsorship Manager, Scottish Government
Adrian Kitson	Head of Executive Support
Susan Smith	Cairngorm Project Director, Item 2.1
Douglas Cowan	Director of Strengthening Communities, Item 2.1
David Oxley	Director of Business and Sector Development, Item 2.2
Elaine Hanton	Head of Energy, Technology and Regulation, Item 2.2 and 2.3
Andrew Jenkins	Head of Financial Services, Items 3.1 to 3.7
Louise MacMillan	Compliance and Risk Manager, Items 3.1 to 3.7
Jeff Foot	Head of External Funding and Investment, Item 3.5
Paul Clark	Chief Information Officer EIS, Item 4.4
Chris Knight	Information Assurance Manager, EIS, Item 4.4

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

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

1.2 Declarations of interest

Belinda Oldfield raised a potential conflict of interest, noting that *[personal data removed]* for Mott MacDonald the company undertaking the peer review on the COWI report on the Cairngorm funicular railway. Belinda advised she did not consider this to be a conflict of interest.

1.3 Minute of Risk and Assurance Committee meeting held on 10 December 2018

The minute was approved subject to minor amendments.

- Page 2 - In relation to HIE Pension Scheme this should be changed to “Needs to be considered within current budget”.

Page 4 – Amend to reflect to read that “the Chair welcomed”

1.4 Matters arising

It was noted that John McGlynn had been appointed as the Orkney Research and Innovation Campus (ORIC) Executive Manager.

The trustees of the HIE Pension Scheme had submitted the scheme funding valuation summary, recovery plan and schedule of contributions in respect of the Scheme’s Valuation to The Pensions Regulator. The trustees reported that the Pensions Regulator had confirmed that it had no further questions on the submission. An update will be provided to the Committee in June.

It was confirmed that a statement of expenditure categories as defined in Public Services Reform (Scotland) Act 2010 has been published on the HIE website.

2 EMERGING ISSUES

2.1 Cairngorm Governance

Douglas Cowan and Susan Smith joined the meeting.

The Head of Business Improvement and Internal Audit provided an update on the key risk and governance issues relating to Cairngorm Mountain Estate.

There are three core elements to the governance arrangements which are being put in place, these being 1) governance within Cairngorm Mountain (Scotland) Limited (CMSL), 2) between HIE and CMSL and 3) wider HIE programme governance for Cairngorm. These arrangements need to support both strategic and tactical requirements and must be kept under review to ensure they meet the needs of CMSL, HIE and the wider Cairngorm Programme activity over time.

To help support CMSL, appropriate governance arrangements have been put in place, covering financial, operation and technical matters. It was reported that the following activity has taken place or is being progressed. 1) access to external health and safety expertise, 2) secured the services of Scott-Moncrieff Accountants for financial management support including set up of key financial control and systems, 3) through legal agents on HIE’s legal framework provided access to legal and secretariat support, 4) expert support and training to put in place systems for GDPR and FOI and 5) supported CMSL in accessing customer service training. In addition, HIE have procured Saffrey Champness to undertake a comprehensive review of the governance arrangements within CMSL against best practice.

An important part of the governance arrangements will be a strong control framework between HIE and CMSL and clear accountability and monitoring arrangements.

The HIE Board - Cairngorm Mountain sub-group has agreed to create a HIE Board - Cairngorm Mountain Advisory Group made up of Paddy Crerar (Chair), Freda Newton and Calum Ross. This group will provide short term support and guidance to HIE. Terms of reference have been drafted for this group.

The Cairngorm Project Director provided an update on the timelines for the Funicular reporting. Design costs are expected from COWI in March, Mott MacDonald will then undertake a peer review with an expected timescale of 8-9 weeks with the completed report available late April or early May. The Committee requested that a copy of this report be made available to Belinda Oldfield as soon as it is available.

The Committee discussed in detail the current position recognising the difficulty in knowing what the costs are until the report is available. The mild weather and lack of snow has also proved difficult, significantly impacting on revenue. The snow factory had also encountered issues with insufficient staff training, icing issues and the fuel costs with snow melting due to the high temperatures.

Communications and stakeholder engagement are important with a need to listen and gather feedback and be open to what a future model would look like. The Area team will be more involved in stakeholder engagement and with the community trust.

Affordability to HIE was discussed and the Director of Finance and Corporate Services confirmed that the revenue forecast was still within the £2.3m authorised overspend approved by Scottish Government (SG) for 2018/19. It was difficult to see how this level of costs could be covered within budget going forward. It was agreed that further information was required to generate options for discussion with the Board and then SG. The Chief Executive and Director of Finance and Corporate Services will address this and discuss with SG. Jill Rosie acknowledged that the Scottish Government was aware of the ongoing challenge and the need for flexibility. Progress will be reported to the next Board meeting.

Audit Scotland (AS) updated the Committee and outlined that they would be looking closely at the governance arrangements in place including the role of the HIE Board, Risk and Assurance Committee, and the CMSL Board. The risk register and the high reputational risk was noted. The quality of the options appraisal and transparency is crucial in relation to future financial sustainability. Cairngorm is high risk and will form part of the AS audit plan with the option of a specific report still being considered. This would provide the opportunity to give an independent view.

The Chief Executive updated on the guarantees outlining that there was a workstream to go through the process. There are 2 guarantees, a company guarantee and a personal guarantee. *[Sentence removed owing to commercial sensitivity.]*

The Committee welcomed the discussion and thanked staff for all the work undertaken to date. Highlighting that there were difficult decisions ahead they confirmed their continued support for the pursuit of the guarantees. There was a need to ensure that there is correct governance between HIE and CMSL, that HIE works closely with SG and ministers, and that Scottish Government colleagues recognise the ongoing challenges in relation to funding and the wider issues identified.

Douglas Cowan and Susan Smith left the meeting.

2.2 Highlands and Islands Space Opportunity

David Oxley and Elaine Hanton joined the meeting.

The Chief Executive outlined that this is a significant project, with challenges in terms of the experience that HIE has in this area. The Head of Business Improvement and Internal Audit explained that there were two papers, one covering the wider regional opportunity and the second specifically relating to Space Hub Sutherland. Lessons learned from previous projects are being drawn on and HIE are aiming to provide best practice in governance.

Scrutiny is provided by a Programme Board chaired by the Chief Executive with the Director of Business and Sector Development designated as the Senior Responsible Owner (SRO). The need for strong HIE leadership and strategic engagement has been identified and in particular a key role for the Director of Business and Sector Development as SRO for both the Sutherland programme and the HIE corporate programme. To minimise any perceptions relating to this dual role the following enhanced governance is in place. 1) HIE Chief Executive will chair the HIE Space Programme Board; 2) A core corporate executive team will support area team appraisal and prioritisation; 3) Area Managers will be supported by Executive Directors in progressing space opportunities in their region; 4) Regular assurance reviews will be undertaken and 5) External stakeholder and technical advisory groups will be created.

In relation to Space Hub Sutherland, the Director of Business and Sector Development updated that the Head of Energy Technologies and Regulation had been helping with the implementation of governance arrangements, project managers (Gardiner and Theobald) had been appointed and Ernst and Young had been appointed as commercial advisers. The project is technically challenging and HIE have identified the opportunity to create a technical advisory group to assist. The Director also provided an update on the terms of the lease options noting that negotiations were ongoing and that there could be a higher ask in terms of cost. The gateway review process and internal audit review process had highlighted concerns around project management which will be addressed by the improved governance arrangements.

The Director of Business and Sector Development also confirmed that communication is regular with monthly town hall sessions and weekly local sessions being undertaken. The regulatory bodies have significant demands however there are good conversations taking place with all of statutory partners - Scottish Natural Heritage (SNH), Scottish Environmental Protection Agency (SEPA) and Highland Council (HC). HIE is also engaging with the Health and Safety Executive (HSE), the Scottish Fire and Rescue Service (SFRS) and the Ministry of Defence (MOD) as well as others. The United Kingdom Space Agency was both a supporter and a regulator.

Angus Campbell noted that he was Vice Chair of the SNH Board as SNH had been mentioned but this was not seen as a conflict of interest.

The Committee welcomed the helpful paper outlining the governance arrangements and sought further clarification in relation to the joint role for the Director of Business and Sector Development and the need to ensure objective due diligence. The Chief Executive confirmed that this was challenging and there was a need to ensure appropriate governance to support the overall programme and the Sutherland opportunity.

[Sentence removed owing to commercial sensitivity.] HIE would continue to review options and attempt to conclude discussions. It was queried if HIE were picking up all of the costs for phase 1. The Committee asked for further information on whether there was any Nuclear Decommissioning Authority (NDA) input and noted the need to minimise the HIE financial risk. The Director of Business and Sector Development confirmed that HIE was looking at additional funding from partners.

Audit Scotland outlined the need for HIE to have the information to make informed decisions.

The Chair thanked the team outlining that the Committee recognise this as a complex and high-risk project and welcomed the two reports stressing the need for good governance. It was noted there was a need to enhance communications and maximise the opportunities for the Highlands and Islands Region and to continue to the conclusion of the full business case.

2.3 WES governance

The Head of Energy Technologies and Regulation updated the Committee on the revised governance arrangements for Wave Energy Scotland (WES) seeking agreement to the resulting revised WES Operating Agreement. The Committee, during 2018 had previously considered proposed amendments to the

governance arrangements which exist between HIE and WES. Highlighting the key areas of change including the revised operating environment, alignment with HIE policy, and delegated financial authority aligned with HIE with the addition of authority up to £500k for the WES Board, leading to more effective use of the WES Board.

The Committee asked if the WES staff grading was linked to the HIE Grading and Job Evaluation and Grading (JEGs) process. This was confirmed, and the Committee asked for clause 14.1.1 of the Operating Agreement to be amended to cross reference.

The Committee approved the paper with the minor amendment highlighted above to be made to the Operating Agreement.

David Oxley and Elaine Hanton left the meeting.

2.4 Priority investment approach

The Head of Business Improvement and Internal Audit outlined the paper to the Committee explaining that the approach to management and delivery takes stock of best practice and is an update on last year's paper.

In February 2018, HIE commissioned external support to undertake a review of the benefits realisation process, as part of the overall project management arrangements, against best practice and to make recommendations for refinement. This was to be primarily for identified priority investments, with the potential for wider application across other areas of HIE's work.

Gateway reviews have been initiated for two investments – Space and the Business Transformation programme. HIE is liaising with the Scottish Government on the best approach for Cairngorm Mountain as the Risk Potential Assessment (RPA) returned a risk rating of 'medium' which would not normally suggest a Scottish Government-led Gateway review. The Committee also commented that they considered that the project should have a "high" risk rating.

As part of the delivery approach HIE is looking to ensure it captures and embeds lessons learned from internal and external best practice. This includes reviews undertaken by Audit Scotland. Recent internal assurance reviews have identified opportunities for improvement in key areas such as roles and responsibilities including use of project boards, Senior owners and benefits realisation.

The following are considerations / next steps: 1) As part of the HIE Strategic and Operating plan process the list of priority investments will be updated; 2) The benefits and reporting arrangements for these activities will be confirmed; 3) While an enhanced approach is being reinforced for priority investments this does not negate the need for all projects to be supported with effective and proportionate project management; 4) The HIE delivery guidance to be updated to reflect improvement areas and lessons learned from internal and external best practice and 5) A reminder will be issued to ensure RPAs are completed for all activity of £5m or more.

The Committee welcomed this update, noting that it was good to see the governance in relation to the independent project review and the time critical nature of the need for RPA where funding is over £5m and approved the considerations / next steps outlined in the paper.

Andrew Jenkins and Louise MacMillan joined the meeting.

3.1 Finance and budget update

The Director of Finance and Corporate Services presented an update on the financial position for 2018/19, the plan for 2019/20 and a brief forward look. This followed on from the discussions at the February 2019 Board meeting.

For 2018/19 capital spend remains slow. A review of outstanding capital claims on a project by project basis has been undertaken to create certainty on spend expected before the year end. If all projects deliver to plan then the capital target will be achieved and is currently showing an over-commitment of c£0.5m. Revenue spend is in line with the straight-line target. There remains an over-commitment, but there is confidence this can be managed. This assumes any overspend on Cairngorm Mountain Scotland Ltd will be treated as 'authorised overspend' as explained at the Board. It also assumes that the back-dated VAT liability for overclaims will remain fairly uncertain during the final accounts process and will be treated as a provision not an accrual. This means (in effect) that the budgetary impact will be felt in 2019/20. The cash position remains very tight, primarily due to the time-lag between incurring and recovering EU-funded expenditure.

For 2019/20, the Board received a detailed paper on several 2019/20 Revenue scenarios, which included a recommended target scenario to work towards. The target scenario relies upon three key dependencies:

- 1) No loss of rental income from the potential sale of the Centre for Health Science to UHI in 2019/20
- 2) Operating losses at Cairngorm Mountain to be funded by SG or classed as 'authorised overspend'
- 3) Back-dated VAT liability assumed to be covered by SG or treated as an authorised overspend

It was recognised that further iterations are required prior to the Board meeting in April.

The Committee noted the paper and requested an update to the Board at the end of April.

3.2 BIIA Significant transaction report

The Head of Business Improvement and Internal Audit (BIIA) presented a paper detailing that a considerable part of the Business Improvement and Internal Audit assurance activity is focussed on reviewing significant transactions. Each year BIIA adopt an approach which attempts to provide an appropriate balance of effort, proportionate to the areas of greatest risk and where most value can be added. Pre-payment work may also be considered, i.e. in advance of payments being processed, to provide assurance to the Accountable Officer, where there is considered to be a significant reputational, financial or operational risk.

The Committee approved the assurance provided by this approach.

3.3 Annual report and accounts improvement plan

The Director of Finance and Corporate Services updated the Committee on responses to recommendations for improvement made by Audit Scotland in their 2017/18 Annual Report.

There are several challenges that have the potential to adversely affect the year-end timetable. The additional workload created by the VAT inspection is by far the most significant, but the time taken to review the team structure (for very good reasons, which are anticipated to bring future benefits) has had the effect of lengthening the vacancy periods within the team. There is a requirement to bring in additional resources to 'catch up' to the timetable and this is currently being pursued.

The Head of Financial Services presented a paper outlining the Annual Report and Accounts timetable to ensure Highlands and Islands Enterprise meet the expectations of the Economy, Jobs and Fair Work Committee and have the Annual Accounts filed at the end of August 2019. It is intended to follow a similar timetable to the 2018 Annual Accounts timetable with the probable addition of an extra interim audit in late April. Following the 2018 audit it was noted that some items could be audited earlier in the year. This would reduce the workload during the main audit.

The subsidiary company audits and tax computations will be undertaken by Saffery Champness. The Wave Energy Scotland (WES), Orkney Research and Innovation Campus (ORIC) and HIE Ventures Limited (HIEVL) audits are planned for the week commencing 6th May. Draft consolidation packs are expected to be completed by 24th May. It is expected that the Subsidiary / Joint Venture accounts will be complete by 1st July.

The Committee were keen to understand if there was enough staff resource to cope with the workload. It was noted that it will be a challenge however resource will be brought in where required. There is an action to ensure that commentary to the annual report and accounts provides context as outlined in the Audit Scotland Good Practice Guide.

The Committee noted positively that the recommendations from the Audit Scotland report were being addressed.

3.4 Audit Scotland 2018/19 Annual Audit Plan

Audit Scotland provided an update on the HIE Annual Audit Plan. The approach is based on risks identified from discussions with staff, attendance at Committee meetings and a review of supporting information. The risks have been categorised into financial risks and wider dimension risks. The audit risks set-out are closely aligned to the Risk and Assurance Committee meeting agenda. Other key risks identified include Cairngorm funicular railway, European Union (EU) withdrawal, Cyber security, key suppliers, and business continuity arrangements.

Paragraph 8, The audit fee was drawn to the attention of the Committee.

The Committee thanked Audit Scotland for the Plan.

3.5 Investment portfolio update

Jeff Foot joined the meeting.

The Head of External Funding and Investment provided an annual summary for the Committee of the current portfolio of share investments and loans which HIE hold, as well as an update on the position of HIE Ventures Ltd. It also incorporated a commentary on the changes in the finance market landscape, particularly those in the public sector which may have a bearing on HIE's investment and lending activities in the future.

Active management of the share investment portfolio continues with the aim of divesting where practicable. With the Scottish Investment Bank being the primary source for share investment in businesses, this means direct investment by HIE is increasingly rare. The relative success of HIE Ventures compared to the performance of other investment funds and groups was highlighted last year, and the vehicle is being retained, even now that the last investment has been realised, until changes taking place in the Scottish funding landscape become crystallised and the benefit of having a public sector owned VC fund can be better assessed.

The number and overall value of loans awarded by HIE in recent years is noteworthy, and the level of demand for this form of funding is not expected to decline in the foreseeable future, especially as access to

commercial finance remains difficult for many small developing businesses. As with share investments, careful consideration needs to be given to the impact of potential loss when a decision to award a loan is being taken, so that HIE's resources are used optimally to generate best value for money.

The Committee welcomed the paper and asked for this area of HIE activity to be included in the Committee Development Plan.

Jeff Foot left the meeting.

3.6 HMRC Update

The Head of Financial Services presented a paper updating the Committee on the HMRC employment tax and VAT compliance review. It was confirmed that the employment tax review was complete with HIE settling the following findings – Internal interview expenses, reimbursement of employee telephone bills and Board expenses. HMRC had conceded that no HIE staff have dual workplaces. HMRC issued a penalty notice in relation to the noncompliance which was suspended on condition HIE met its PAYE obligations for the following month. HIE met the condition and therefore no penalty payment was required.

In relation to VAT compliance, HIE needs to agree with E&Y if it can restrict the HMRC Partial Exemption Special Method (PESM) review to April 2018 forward. It is hoped to have a final position agreed with E&Y by the end of April 2019, with a settled position with HMRC by the end of October 2019. E&Y will assist in concluding the VAT compliance review and proposing a new PESM for discussion with HMRC. HIE expects that a verified PESM should be available to share with HMRC by October with a settled position from HMRC by January 2020.

HIE must also comply with HMRC 'Making Tax Digital' (MTD). From the 1st April 2019 organisations must submit their VAT return electronically using an Application Program Interface. The Financial Services team has scheduled the 27th February to ensure the HIE and HIE subsidiary VAT returns meet the requirements of MTD.

The Committee noted the update and requested input from Scottish Government re the funding of the VAT position.

3.7 Internal control approach

The Compliance and Risk Manager updated the Committee on the Internal Control Process to be followed this year noting that this is the same approach as last year with the addition of the HIE subsidiary Cairngorm Mountain (Scotland) Limited. The checklist is issued to all Area Managers, Directors, key Health and Safety contacts as well as subsidiaries Wave Energy Scotland (WES), Orkney Research and Innovation Campus (ORIC) and HIE Ventures.

The Committee welcomed the approach noting that it represented a detailed and genuine attempt to build-up the overall HIE position in relation to controls.

Andrew Jenkins and Louise MacMillan left the meeting.

4 WIDER ASSURANCE

4.1 Customer service update

The Head of Business Improvement and Internal Audit (BIIA) provided an update on the areas of activity covering the nine months from 1st April 2018 – 31st December 2018. This included an overview of customer feedback, incorporating both compliments and complaints for both HIE (Highlands and Islands Enterprise) and Wave Energy Scotland (WES), an overview of requests received under the Freedom of Information (Scotland) Act and Environmental Information Regulations for both HIE and WES and a high-level overview of next steps in terms of delivering the wider Customer Service agenda.

It was noted that there are a small number of themes where there are repeated requests for information – these include Cairngorm Mountain, Space, Fisheries, and some project specific issues. Freedom of information requests have become increasingly complex and voluminous, making it increasingly difficult to respond to statutory timescales. This has also resulted in increased requests for review and appeals to the FOI Commissioner.

The Chair welcomed the update noting that it was also good to see compliments and that the requests for information tended to mirror high risk areas.

4.2 Business Improvement and Internal Audit update

The Head of Business Improvement and Internal Audit (BIIA) updated on the activities of the Business Improvement and Internal Audit (BIIA) Team during the ten-month period to 31 January 2019. The BIIA team has delivered 41 outputs by way of reports issued, three of these reports remain in draft. A significant number of other outputs have been delivered by presentation, papers, workshops or activity that has otherwise contributed significantly to business improvement or assurance related activity.

The Committee noted the update and the significant amount of work being undertaken.

The Committee discussed in some detail the workload and the role of the Head of BIIA and whether there was enough resource.

There was concern that there was a huge reliance on the Head of BIIA and a need for additional external resource including to cover the work of BIIA. The Head of BIIA agreed to bring a paper to the June RAC meeting on BIIA.

4.3 Risk register

This paper was taken as an information paper with the Head of Business Improvement and Internal Audit (BIIA) providing a brief summary referring to previous discussion and how more attention was needed on applying the process which will be covered as part of the development session to be arranged. It was noted there was some inconsistency in how project and corporate risk was being presented. This would be reviewed going forward as part of a refresh of our risk arrangements

The Committee agreed that the development day should include a review of the risk process.

4.4 EIS cyber security update

Paul Clark and Chris Knight joined the meeting by Skype.

The Chief Information Officer and the Information Assurance Manager from EIS joined the meeting by telephone conference to talk through the key points outlined in the report. Highlighting that the Security Council continue to meet monthly with Senior Information Risk Owners (SIRO's) from each partner, representation from the Digital Teams, SDS Procurement, EIS Cyber Security Team and the CIO (Chair). Issues

currently being addressed are 1) Legacy Apps Project; 2) Security Operations Centre (SOC); 3) Security Testing; 4) Cyber Essentials Plus, 5) Phishing Testing; 6) Cyber Team Structure and 7) Cyber risk.

EY have been commissioned by the EIS partners to perform a Cyber Security audit on the EIS service. Auditors have been on site from 13th February and the report is due to be completed within the next week and will be shared with HIE and the Risk and Assurance Committee upon completion.

[Paragraph removed in the interests of the effective conduct of public affairs.]

Paul Clark and Chris Knight left the meeting.

5 UPDATES CUNNTASAN AS ÙR

5.1 Scottish Government Audit Committee handbook

The Committee noted the key changes to the terms of reference and were content with the additions and for this to go to the Board

5.2 Lobbying act

The update was noted.

5.3 Procurement strategy update

The Committee welcomed the update and appreciated the more measurable outcomes and the reference to community benefit. The Committee also noted the need to ensure that for all spend under £50k that policy was being followed. It was agreed that a message from the Leadership Team was required to reinforce this and that the Head of Procurement would also issue a note to all staff.

6 ITEMS FOR INFORMATION CUSPAIREAN AIRSON FIOSRACHADH

6.1 Committee Development Plan

The plan was noted with the addition of a session on the Investment Portfolio and the NHS Fraud exercise.

6.2 Any other business

There was no other business.

6.3 Date of next meeting

The next meeting of the Risk and Assurance Committee is 04 June 2019.

Note:

- Donald MacRae left the meeting and was not present for items 3.7, 4.1, 4.2, 5.1, 4.3, 5.2, 5.3, 6.1, 6.2, 6.3
- Belinda Oldfield and Jill Rosie left the meeting and were not present for items 4.3, 5.2, 5.3, 6.1, 6.2
- The meeting was not quorate for items 4.3, 5.2, 5.3, 6.1, 6.2 and these items were taken for information only.

Adrian Kitson
Head of Executive Support
05 March 2019