



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

**MINUTE OF THE HIE RISK AND ASSURANCE COMMITTEE MEETING**  
**HELD ON TUESDAY 03 DECEMBER 2019 AT AN LÒCHRAN, INVERNESS CAMPUS**

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

**IN ATTENDANCE:**

Carroll Buxton	Interim Chief Executive
Morven Gibson	Shadow Board Member
Sandra Dunbar	Director of Business Improvement and Internal Audit
Graeme Greenhill	Senior Audit Manager, Performance Audit and Best Value, Audit Scotland
Laura Nelson	Senior Auditor, Audit Scotland
Marion McCormack	Head of Better Regulation and Enterprise Sponsorship, Scottish Government
Adrian Kitson	Head of Executive Support
Elaine Hanton	Interim Project Lead - Cairngorm, Items 2.1 and 2.1a
David Oxley	Director of Business Growth, Item 2.3
Martin Johnson	Interim Director of Strategy and Regional Economy
Louise MacMillan	Compliance and Risk Manager
James Laraway	Business Improvement Manager, Item 3.2
Keiron Scott	IS Strategy Manager, Item 3.5
Jane MacLennan	Head of Information Governance, Item 3.6

**1 STANDING ITEMS**  
**CUSPAIREAN COTHROMACH**

**1.1 Welcome and apologies**

The Chair welcomed everyone to the meeting. Apologies were received from Nick Kenton, Director of Finance and Corporate Services.

**1.2 Declarations of interest**

In relation to Item 2.3, Angus Campbell noted an interest as the Deputy Chair of the Scottish Natural Heritage (SNH) Board. He has no direct involvement with the subject of the item, and this was not seen as a conflict of interest.

In relation to Item 2.1 and 2.1a, Belinda Oldfield raised a potential conflict of interest relating to Mott MacDonald the company undertaking the peer review on the COWI report on the Cairngorm funicular railway, as *[personal data removed]* worked for the company. Belinda advised she did not consider this to be a conflict of interest as there was no direct involvement in the project.

### 1.3 Minute of Risk and Assurance Committee meeting held on 13 August 2019

The minute was approved subject to minor amendments.

Page 5, 2.6 HIE Annual Report and Accounts 2018/19, sixth paragraph, clarify financial year each sum refers to.

Page 5, 2.6 HIE Annual Report and Accounts 2018/19, 9<sup>th</sup> paragraph, note that Scottish Government is aware of the balance sheet position.

Page 7, 3.1 Cairngorm Mountain Update, 6<sup>th</sup> paragraph first sentence, correct sentence by removing “I”.

Page 7, 3.2 Space Update, 1<sup>st</sup> paragraph, correct nature of the interest recorded for Angus Campbell.

Page 12, 5.2 Audit Report – Follow up of Internal Audit Recommendations, at the last sentence add “CEO would pursue follow up actions with Leadership Team”.

### 1.4 Matters arising from Risk and Assurance Committee meeting held on 13 August 2019

It was noted that Jane MacLennan the Head of Information Governance was the HIE Data Protection Officer (DPO).

The Interim Chief Executive updated the Committee in relation to the letter to the Scottish Government regarding the pension guarantee and that actuarial advice had been commissioned re the HIE and LGPS schemes. Once advice has been received, HIE will then go back to the Scottish Government and Trustees establishing the position. An update will be provided to the next Committee meeting on the 3<sup>rd</sup> March 2020.

### 1.5 Matters arising from the HIE Board meetings held on 03 September 2019 and 29 October 2019

There were no matters arising from the HIE Board meetings held on 03 September 2019 and 29 October 2019.

## 2 CURRENT AND EMERGING ISSUES CUNNTASAN BLIADHNAIL

### 2.1 Cairngorm Mountain Update

*Elaine Hanton joined the meeting.*

The Interim Project Lead for Cairngorm outlined that this paper sits alongside an update paper to the HIE Board. Critical to the development of the Business Case and master planning is engagement with a wide range of key stakeholders. To this end there has been considerable effort in the early part of November to engage with a wide range of key stakeholders. It was agreed that further consultation would take place as the Outline and Final Business Cases progress.

Work continues apace to develop an Outline Business Case for consideration by the HIE Board and Scottish Government for early in the New Year. Early indications are that a repair would be the preferred option, but this will be tested as part of the business case options appraisal process. This remains a very challenging project and there are a number of interdependent activities in the programme critical path which need to align for the funicular solution to commence in early summer 2020. The project plan requires HIE to continue to incur costs at risk to maintain the critical path. In addition, a solution will require public sector funding of the infrastructure work and CMSL operating costs. It is anticipated that a final business case will be presented to the Board and Scottish Government in spring 2020 to meet the window for funicular repairs.

As part of the Business Case development process, HIE’s contractors, RSM, have started a process of identifying lessons learned both at Cairngorm previously but also from wider investments and global best practice in relation to ski and mountain resort operation.

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

Public interest in Cairngorm continues with media, MSP, stakeholder and FOI requests. Significant amounts of HIE staff time is being spent on these issues.

The Committee asked about the long term sustainability. It was confirmed that this formed part of the lessons learned work being undertaken by RSM who are reviewing different ownership models which will form part of the Business Case. The assumption is that HIE will retain control during the first phase but that this may change beyond that point.

#### **a. SG Review**

The Head of Better Regulation and Enterprise Sponsorship, Scottish Government provided an update on the SG review noting that this had been largely completed and a draft taken to the Minister. Communication plans are still being considered and it was noted that Purdah advice received was that should the report be made public, publication would have to wait until after the General Election. The Minister is keen to see continued stakeholder engagement. The report will be shared with Audit Scotland as soon as possible.

The Committee asked if the final report would be shared with HIE prior to any publication and it was confirmed that this would be the case.

The committee welcomed the helpful discussion on Cairngorm noting the good progress being made with the Business Case and the likelihood of this going to the Board in February 2020.

The Committee noted the complexity and the number of challenging interdependent elements of the Cairngorm programme and the need for HIE to ensure it remains objective and strategic. Progress with the Guarantees was noted as was the potential publication of the SG review in January 2020. A copy of the final report would be provided to the HIE Board when available.

The Committee noted their appreciation of the work of all involved highlighting the significant public interest and importance to the Highlands.

## **2.2 Audit Scotland – Section 23 Report**

The Senior Audit Manager from Audit Scotland provided an overview of the process, timetable and issues to be covered as part of the Section 23 review.

The scoping exercise is currently underway with access having been provided to documentation. The project brief will then be published on the Audit Scotland website with an issues matrix to be agreed before Christmas. Fieldwork will take place during January and February with interviews to be arranged to include external stakeholders. The draft report highlighting emerging messages will be ready early March and will be issued late March or early April with final publication on 7<sup>th</sup> May 2020. This will then be presented to the Public Audit and Post-legislative Scrutiny Committee late May who could then pass the report on to the Rural Economy and Connectivity Committee.

The areas of interest will be 1) The HIE management of Cairngorm Mountain Limited (CML) from 2014 to the point that it entered administration; 2) HIE's response to CML entering administration and the establishment of CMSL and 3) Events post establishment of CMSL such as the robustness of decision making.

Audit Scotland will use the Scottish Government review as part of their own review but stressed that they are totally independent. It is also recognised that they will be reporting in an environment when final decisions by HIE and Scottish Government relating to Cairngorm still need to be made.

The Head of Better Regulation and Enterprise Sponsorship, Scottish Government confirmed that it is the Director General and not the Minister who would appear before the Public Audit and Post-legislative Scrutiny Committee and that HIE should prepare for a possible committee appearance.

The Senior Audit Manager from Audit Scotland confirmed that the Auditor General will update the Public Audit and Post-legislative Scrutiny Committee and it was routine for Audit Scotland to come back and review recommendations made in the report and this could form part of the annual audit process.

The Chair thanked Audit Scotland for the update.

*Elaine Hanton left the meeting.*

### **2.3 Space Hub Sutherland Update**

*David Oxley joined the meeting.*

The Director of Business Growth provided an update the HIE Risk and Assurance Committee on the status of the Space Hub Sutherland project with regards to current risks, and project delivery.

*[Paragraph removed in the interests of the effective conduct of public affairs and reasons of commercial sensitivity.]*

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*David Oxley left the meeting.*

### **2.4 Court Case Update**

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

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

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

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

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

## **2.5 VAT Update**

In the absence of the Director of Finance and Corporate Services, the Interim Chief Executive and the Director of Business Improvement and Internal Audit provided an update on the current position. It was highlighted that progress had been made with the categorisation of projects. HIE has been working with E&Y to clarify the correct allocation of projects to categories. This has been a more time-consuming exercise than originally envisaged and the draft new Partial Exemption Special Method (PESM) will not be available to present to HMRC until 13<sup>th</sup> December 2019.

During the clarification of projects allocated to categories it was noted that there may be an opportunity for HIE to improve the VAT recovery available on some projects and indications are that HIE can remain within the original figure of £4.5m provided by Scottish Government to assist HIE in settling the liability with HMRC.

It was agreed that a meeting would be arranged with the Chair of HIE, the Chair of the Risk and Assurance Committee, the Interim Chief Executive, The Director of Finance and Corporate Services, the Director of Business Improvement and Internal Audit, Ernst and Young and Scottish Government to discuss.

It was recognised that the VAT issues being dealt with by HIE also need to be considered in the context of the wider Scottish Public Sector and HIE needed to take advice from Scottish Government regarding optimal outcomes on this basis. The Director of Finance and Corporate Services has met with other public sector bodies to discuss lessons learned from their experience of similar issues. There was concern from the Committee that the wider public sector context needed to be balanced with minimising any liability for HIE.

The Committee noted that much work had been undertaken on this but that it needed to be drawn to a conclusion with a submission made on 13<sup>th</sup> December 2019. It was good to note that the figure was reducing, and the position had moved on over 18 months but this needs resolved to ensure the budget position is clear.

## **2.6 Finance Team Staffing Update**

The Interim Chief Executive provided an update to the Committee on the staffing of the Finance Department following recommendations made by Audit Scotland.

A graduate has been recruited and began in early November. A job description for the qualified post has been agreed, graded and has been out to advert, with a planned interview date of 10th December. From the applications received HIE is hopeful of a positive outcome.

Initial planning for the year end timetable has commenced with a meeting of team representatives from relevant teams taking place on 18th December to ensure the year end timetable and preparation of annual accounts starts from 3rd January. A 'lessons learned' meeting has been held with Audit Scotland and this will inform the 2019/20 Annual Accounts process.

The Committee were pleased to see that progress had been made particularly with the need to get the right skills in place. It was requested that an update be provided to the Committee and the Board following interviews.

## **2.7 Brexit Approach Update**

*Martin Johnson joined the meeting.*

The Interim Director of Strategy and Regional Economy provided an update to the Committee outlining the

broad set of business and place-based actions which have been initiated by HIE, including participation and alignment with the national Scottish response and drawing particular attention to the HIE Brexit action plan.

The Committee asked if any more needed to be done by HIE and if there were any opportunities from Brexit. It was confirmed that HIE was looking to reach a wider base via a variety of options including one to one sessions, social media, press and public relations, Business Gateway and also via various webinars. There were also opportunities which were dependent on import and export tariffs and regulations and these were recognised as priority areas to look at.

The Committee thanked the Interim Director for the update.

*Martin Johnson left the meeting.*

### **3 PLANNED ACTIVITY** **GNÌOMHACHDAN PLANAICHTÉ**

#### **3.1 Business Improvement Internal Audit (BIIA) Update**

The Director of Business Improvement and Internal Audit (BIIA) provided an update on the key activities of the BIIA Directorate. As part of HIE's assurance and internal control environment the HIE risk register is regularly updated. The risk register is used to inform and update the assurance plan and activity. *[Sentence removed in the interests of the effective conduct of public affairs.]*

The plan is informed by discussions with Leadership Team and Senior Managers to identify the key priority areas. To help take a structured approach to this work we looked to identify actions under the following headings: a) Areas where strategy guidance would help support delivery of the HIE Operating Plan objectives; b) Ensuring tools and guidance help support organisational activity and remain fit for purpose and c) Review the delivery and resource models to ensure they support effective execution and ensure tools and activity are aligned to strategy.

Significant activity has been undertaken in the HIE Business Transformation programme. This programme is heavily aligned to the wider partner collaboration activity and BIIA staff have supported both programmes. There is significant ongoing collaboration with partners with a new single entry point portal going live during December following work with Scottish Enterprise and Skills Development Scotland.

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

##### **3.1a Assurance Plan Progress Report**

The Compliance and Risk Manager provided an update on the Assurance Plan Progress Report which indicates the achievement of key performance indicators for the period April to October 2019, representing the first seven months of 2019/20 as well as an update on work which has been completed in the period relating to the previous year's plan. Attention was drawn to the delivery plan that demonstrated the appropriate allocation of internal and externally outsourced resources to ensure delivery of the plan. It was confirmed that good progress had been made to date with the delivery of the plan, work had commenced on the scoping of significant transactions for the year end and reviewing the risk plan to ensure that all issues are picked-up.

The Committee thanked the Compliance and Risk Manager for the update.

##### **3.1b Risk Process Update**

*James Laraway joined the meeting.*

The Business Improvement Manager updated the Committee on the work undertaken on reviewing HIE's approach to risk management. The approach taken was to 1) Analyse the 'as-is' with regards to how risks are identified, managed and reported within HIE currently; 2) Approach partner organisations to determine 'best practice' and 3) Recommend a set of actions to improve Risk Management at HIE.

Having reached out to all partner organisations to understand how they manage risk, it was noted that most do this manually through the completion of spreadsheets, however Skills Development Scotland (SDS) use a digital cloud-based Risk Management solution called Pentana. HIE would be keen to align with the SDS tool which is used by 90 % of local authorities for planning and performance. SDS use the risk module to create and manage their risk registers, track risk progress over time and to run risk data analysis.

From an examination of the 'as-is' practices in relation to Risk Management a number of areas were identified as issues of concern including 1) Effectiveness as a tool; 2) Roles and responsibilities; 3) Training; 4) Risk identification; 5) Timeliness of reporting; 6) Limited reporting capability; 7) Data duplication; 8) Increased risk and 9) Lack of standardisation.

It was confirmed that actions are currently in progress to address the areas of concern along with proposed timescales to implement suggested changes such as a) Transition to a 5x5 scoring matrix; b) Internal Risk awareness / risk management training; c) Adoption of a digital Risk Management solution; d) providing an issue register and e) Scottish Government training session.

The Committee were pleased to see the paper noting that the digital solution Pentana was a good approach and would greatly assist. It was also good to see that the difference between risk management and issue management had been identified. It was also suggested that there are other public sector organisations that could be consulted such as Visit Scotland and Transport Scotland who have similar systems in place.

The Interim Chief Executive highlighted that Risk Champions had an important role, but it was equally important that all HIE staff are able to identify and clearly articulate risk.

It was agreed that implementation was key, and that further discussion would take place at a session to be held for the Committee on 10<sup>th</sup> January 2020.

### **3.2 Risk Register at 30 November 2019 – Draft Board Paper**

A working draft of the Risk Register to be presented to the HIE Board was discussed with some points for review identified prior to finalising.

The Committee noted the need to move away from a generic risk owner. The Business Improvement Manager confirmed that this will be refreshed and amended prior to moving to a digital management solution.

The Committee noted that it was encouraging to see this changing over time and how the changes will give the Committee and the Board an improved overview and better assurance.

### **3.3 IS Audits Update and IS Assurance**

#### **3.3a IS Assurance Plan 2019/20**

#### **3.3b Summary of Concluded Ernst and Young Audit Reviews**

These items were covered together. HIE have a procured arrangement with their Partners, Scottish Enterprise and Skills Development Scotland, to support us in our IS Audit Requirements. Ernst Young have the contract for this work and have concluded 2 reports in the period.

1) Third party supplier review - The scope of the review was to identify supplier key controls aligned to the relevant COBIT control framework that address critical risks and assess their effectiveness. The objective of

the review was to assess key IT control areas of access management; system maintenance; IT operations; change management; physical security; infrastructure management; and privileged access.

2) Governance and strategy review - EY reviewed the EIS 2018-2020 Strategy which outlines the services offered to Partners – service provision end user services; hosting services; professional services; and business system services. They considered the IT strategic plan and its business alignment; portfolio management; and supporting transition plans.

*[Sentence removed in the interests of the effective conduct of public affairs and reasons of commercial sensitivity.]* The Director of Business Improvement and Internal Audit noted that there needed to be clarity around what services EIS deliver for HIE. HIE need to ensure that follow-ups are reviewed and Ernst and Young are to review actions. It was noted that a third party review will be different under the new model.

### **3.4 BIIA Assurance Reports**

#### **3.4a National Fraud Initiative 2018/19 – Additional Review of Data Matches**

The Compliance and Risk Manager provided an overview to the Committee of the purpose of HIE’s involvement in the National Fraud Initiative (NFI) and the scope of the work. It was noted that the work had identified a number of matches that required further follow-up and following review corrective action had been taken and a number of recommendations made.

The Committee noted that this was a good exercise to participate in and beneficial to HIE and the wider public sector.

#### **3.4b Approach for Increased Board Paper Transparency Reporting - Best Practice Review**

This paper provided an update to the Committee on the review that is underway. The review covers the following areas: 1) Review current practice adopted by relevant Scottish and UK public sector agencies for publication of papers and minutes; 2) Consider types and format of papers e.g. policy, decisions, discussion; 3) Determine if redactions are applied and, if so, what reasons are provided for applying these and 4) Liaise with Scottish Government and Audit Scotland on any good practice.

The review will conclude during the final quarter of 2019/20 with any recommendations being implemented in 2020/21. The outcomes from the review will be presented at a future Committee meeting.

### **3.5 Cyber Security Update**

*Keiron Scott joined the meeting*

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

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

*Keiron Scott left the meeting.*

### **3.6 Public Sector Reform Act (PSRA)**

*Jane MacLennan joined the meeting.*

The Head of Information Governance presented a paper outlining HIE’s statutory reporting duty under the Act and outlining the information that would be published. Under the Public Services Reform (Scotland) Act 2010 HIE is required, as soon as is reasonably practicable after the end of each financial year, to publish a statement of expenditure under categories defined within the Act.

It was noted that reporting for this year will include HIE, Orkney Research and Innovation Campus (ORIC) and Cairngorm Mountain Scotland Limited (CMSL). This will all be incorporated into one report when published.

The Committee suggested that an additional column could be inserted with brief descriptors that may help with reducing additional queries. It was agreed that this would be reviewed.

*Jane MacLennan left the meeting.*

#### **4 ITEMS FOR INFORMATION** **CUSPAIREAN AIRSON FIOSRACHADH**

##### **4.1 Ernst and Young Report – Third Party Suppliers Review**

This report was noted.

##### **4.2 Ernst and Young Report – Governance and Strategy Review**

This report was noted.

##### **4.3 Any Other Business**

##### **4.3a Agree a date for Committee Development Session**

A date was agreed for the Committee development session which will be held on Friday 10<sup>th</sup> January 2020.

##### **4.4 Date of Next Meeting – 03 March 2020**

**Note:** Donald MacRae left the meeting and was not present for items 3.4 onwards.

Adrian Kitson  
Head of Executive Support  
03 December 2019