

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

**MINUTE OF THE HIE RISK AND ASSURANCE COMMITTEE MEETING HELD
ON TUESDAY 03 MARCH 2020 AT AN LÒCHRAN, INVERNESS CAMPUS**

PRESENT: Donald MacRae (Chair)
Angus Campbell Belinda
Oldfield

IN ATTENDANCE:

Carroll Buxton	Interim Chief Executive
Sandra Dunbar	Director of Business Improvement and Internal Audit
Nick Kenton	Director of Finance and Corporate Services
Martin Johnson	Interim Director of Strategy and Regional Economy
Marion McCormack	Head of Better Regulation and Enterprise Sponsorship, Scottish Government
Kate Bevan	Enterprise Sponsorship Manager, Scottish Government
Gordon Smail	Audit Director, Performance Audit and Best Value, Audit Scotland
Maggie Bruce	Senior Audit Manager, Audit Scotland
Adrian Kitson	Head of Executive Support
Louise MacMillan	Compliance and Risk Manager
David Oxley	Director of Business Growth, Item 2.2b
Andrew Jenkins	Head of Financial Services, Section 3
Jeff Foot	Head of External Funding and Investment, Item 3.5
Eddie O'Hara	Head of EIS Governance, Item 4.4
Ian Considine	Head of Procurement, Item 4.5

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting. No apologies were received.

1.2 Declarations of interest

It was noted that staff present at the meeting would have an interest in item 2.5 relating to pensions. It was agreed that staff could remain for the discussion.

1.3 Minute of Risk and Assurance Committee meeting held on 3 December 2019

The minute was approved.

1.4 Matters arising from Risk and Assurance Committee meeting held on 3 December 2019

There were no matters arising from the meeting of 3 December that were not covered by the agenda items.

1.5 Matters arising from the HIE Board meetings held on 17 December 2019 and 18 February 2020

There were no matters arising from the HIE Board meetings held on 17 December 2019 and 18 February 2020.

2 | CURRENT AND EMERGING ISSUES CÙISEAN LÀITHEIL

2.1 Cairngorm Mountain

2.1a Governance update

2.1b Scottish Government review

2.1b.1 Scottish Government Summary of HIE Actions

The Director of Business Improvement and Internal Audit provided a brief update on all three papers together, outlining that the papers provide an update on the Business Case covering the approach to the Cairngorm project, the outline business case, funding, an update on the funicular including infrastructure repairs, scrutiny and guarantees. It was noted this remained a complex and high-risk programme.

An update was provided on the independent Scottish Government review undertaken by officials from the Financial Management Directorate under the supervision of the Chief Financial Officer. The scope of the review was agreed by the Cabinet Secretary for the Rural Economy. Following the Scottish Government review of Cairngorm Mountain, a table has been prepared detailing the recommendations and the actions HIE will take in response to these.

A report will be made back to the Committee by circa the end of June 2020 regarding implementation of the recommendations.

The Audit Director, Performance Audit and Best Value, Audit Scotland noted that Audit Scotland were aware of the report and that the Section 23 review will cover similar areas. Audit Scotland had been copied into information provided by HIE to the Scottish Government for their review would hope to avoid duplication in information requests in undertaking the Section 23 review.

2.1 c Audit Scotland – Section 23 update

The Audit Director, Performance Audit and Best Value, Audit Scotland provided an update on the Section 23 process, thanking HIE staff for their openness and transparency throughout the process. The three historic areas of focus for the review are 1) the contract let to Natural Assets Investments Limited (NAIL); 2) the contract management and 3) the actions taken by HIE at the time of the administration of the operating company, Cairngorm Mountain Limited. The timetable for the review is March/April

2020 with publication in May.

The Director of Business Improvement and Internal Audit noted her appreciation for the feedback and welcomed the dialogue with Audit Scotland to ensure that the content of the report didn't impact on the current legal claims. It was noted that regular updates are provided to the Cabinet Secretary for the Rural Economy and that the final Scottish Government report was with the Minister. It was noted that final decision on publication approach had not been made and it was agreed that HIE need to be sighted with regards to this, and to agree public messages.

The Head of Better Regulation and Enterprise Sponsorship, Scottish Government updated that a recommendation would be made to the Minister shortly regarding the publication approach and that any publication of findings may be in conjunction with the Audit Scotland report. Scottish Government to keep HIE informed re the date of publication with Audit Scotland aiming to report by 7 May 2020.

The committee welcomed the update on Cairngorm noting the progress being made with the Business Case. It was also noted that a copy of the SG report had been provided to the HIE Board Cairngorm Sub-group.

The Committee noted their appreciation of the work of all involved.

2.2 Space

2.2a Space Programme Update

The Interim Director of Strategy and Regional Economy presented a paper providing a short update on space-related activities across the HIE Region following on from a paper submitted to HIE Board in December 2019.

The paper provided an update on activity in Western Isles, Shetland, Argyll and Moray. In light of anticipated developments/decisions around Space Hub Sutherland and the other projects, HIE's space policy will be reviewed for any changes for consideration by the HIE Board in April 2020. Market failure and displacement are key considerations.

The Audit Director, Performance Audit and Best Value, Audit Scotland noted that the numbers are substantial and there would be a question regarding financial sustainability in relation to HIE's finances. The Director of Business Improvement and Internal Audit confirmed that HIE is aware of the significant risks relating to this activity and were looking to understand these at individual project level but also ensure that there was an understanding at national sectoral level, including of the national opportunity.

The Committee noted that the Scottish Government have stood up a multi-agency Scottish Government Space Group (SGSG), to have oversight of space-projects across Scotland, providing support and coordination. HIE is represented by the Interim Director of Strategy and Regional Economy.

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

The Committee outlined that they are keen to understand market failure and displacement and will need all the information on this based on a Scottish level, when the Board is required to decide on a

funding paper. The Committee are fully aware of the scrutiny required with regards to funding choices and the need for alignment with Scottish Government.

2.2 b Space Hub Sutherland Update

David Oxley joined the meeting.

The Director of Business Growth presented a paper to update the Committee on the status of the Space Hub Sutherland project with regards to options, funding, risks and project delivery. The update for the Committee is based on the paper presented to HIE Board and is to ensure that the Committee is equally sighted on project progress.

Planning was submitted to Highland Council on 7 February 2020, with documents made public on 12 February and open for comments until 12th March 2020. Based on advice from Highland Council officials, this will enable the Highland Council North Planning Area Committee to make a decision at their meeting on 21 April 2020. This keeps the project on track in terms of delivery timescales.

HIE is now working on a detailed business plan and options appraisal which will also consider a funding model.

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

Currently HIE has a lease option with Melness Crofters Estate, (MCE).

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

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

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

It is still the aim to present a case to the Board at the end of April, but it is recognised that there is a need for clarity and there is much work to do.

The committee recognise the staff effort going into this project.

David Oxley left the meeting.

2.3 Court Case Update

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

The Committee noted the update.

2.4 VAT Update

The Director of Finance and Corporate Services provided an update on the current position and outlining the next steps following a meeting with HMRC on 13 February 2020.

[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.]

The Interim Chief Executive noted her thanks to the Scottish Government for their input to this issue.

The Committee noted that there was still work to do however they were reassured by the progress made since December 2019 and that it was good to see matters progressing.

2.5 Pension Guarantees Cover Note

2.5 a HIE Initial Review of Pension Provision

The Director of Finance and Corporate Services presented a paper to update the Committee on the issue of pension guarantees and to outline a way forward.

It became clear that the review of the HIE scheme would benefit from actuarial advice. The appointed actuary strongly advised that any approach to Scottish Government regarding the HIE Scheme Guarantee should be expanded to be a holistic review of all our schemes. In particular, it is important to establish the Guarantee position in relation to the four Local Government Pension Schemes (LGPS) due to the possibility of a 'cessation debt event' taking place. In simple terms, an LGPS is able to invoke a cessation debt at the point when a scheme employer's last active participant leaves the LGPS. A cessation debt payment is a significant lump sum that is intended to cover the future liabilities relating to the members for whom HIE has responsibility. It is therefore important to understand that if this debt falls on HIE or if there is a Guarantee in place that in effect transfers the responsibility for the debt to SG.

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

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

The Audit Director, Performance Audit and Best Value, Audit Scotland noted interest regarding the impact on the annual accounts of the Guarantee and the Shetland scheme issues.

The Committee noted that they were content with the direction of travel but required clarity on the timescales and an options appraisal paper would be required as well as an indication of when and how discussions with the Scottish Government would commence. An update to be provided to the next committee meeting.

2.6 North Bridge Lessons

The Director of Business Improvement and Internal Audit provided a brief update on a lessons learned review that had been undertaken following issues that arising during the Inverness Campus North Bridge project. A number of key issues were identified with lessons learned in relation to each. In implementing these it is acknowledged that there is a need for proportionality and alignment with updated processes being introduced for priority investment activity.

The Committee noted the update.

3 ACCOUNTS RELATED STUTHAN CUNNTASACHAIL

Andrew Jenkins joined the meeting for the whole of section 3.

3.1 Budget Update

The Director of Finance and Corporate Services presented a paper setting out a first draft of the capital and revenue budgets for 2020/21 for the Committee, this is the same paper that was presented to the HIE Board. Confirming that a letter had been sent to the Cabinet Secretary for the Rural Economy seeking funding guarantees for both Cairngorm and *[Sentence removed owing to commercial sensitivity.]* It should be noted that there is £8.5m capital receipts 'banked' with SG regarding the funicular railway.

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

The capital (CDEL) baseline budget is £25.5m (similar to 2019/20) with the revenue (RDEL) baseline budget being cut by £4.0m or 13.6% to £25.5m.

The Head of Better Regulation and Enterprise Sponsorship, Scottish Government confirmed that ongoing meetings were taking place to discuss what assistance might be offered to HIE to manage the position in- year. The exercise to review commitment is ongoing with the legal commitment situation closing however the moral commitment position remains an issue.

The Interim Chief Executive confirmed that a large amount of work had gone into this and noting that the legal and moral commitment position is a big issue for HIE. There has been an all staff call to ensure that messaging from HIE is kept consistent. There is much press coverage and HIE is keeping in touch with clients and stakeholders. HIE is reviewing the approach and looking at changes that can be made noting the loss of leverage from the loss of funding.

The Committee noted the update and noted that this presented an opportunity to review how to do things differently and to challenge the operating model and sustainability.

3.2 Significant Transactions

The Director of Business Improvement and Internal Audit provided a brief overview of the proposed approach to reviewing significant transactions that took place during the financial year 2019-20, seeking confirmation from the Committee that the proposed approach will provide appropriate assurance on expenditure in year.

A considerable part of the Business Improvement and Internal Audit assurance activity is focussed on reviewing significant transactions. Each year an approach is adopted which attempts to provide an appropriate balance of effort, proportionate to the areas of greatest risk and where most value can be added.

It is proposed that the same approach taken for Block A transactions as in previous years will be adopted for this year. This approach will apply both HIE and WES transactions.

For Block B transactions, discussions have been held with Audit Scotland and the HIE Finance team to consider the most effective approach to ensure it continues to avoid duplication, add value and considers the areas of highest risk. Audit Scotland has confirmed they undertake a comparative review of Block B expenditure across years and it is therefore proposed that HIE do not also undertake a comparative review for 2019/20.

It was noted that the Director of Business Improvement and Internal Audit has been involved in the Cairngorm project throughout the year. To ensure objectivity, reviews of Cairngorm expenditure will be undertaken by other team members and reviewed by Scott-Moncrieff, with whom there is a contract for internal audit support.

The Committee confirmed that the approach proposed will provide appropriate assurance on expenditure in year.

3.3 Annual Report and Accounts Improvement Plan

The Head of Financial Services provided an update to the Committee on responses to recommendations for improvement made by Audit Scotland in their 2017/18 and 2018/19 Annual Report.

Three recommendations made in 2017/18 remained in place as part of the 2018/19 audit report to be carried forward to 2019/20 and are as follows. 1) Accounts preparation processes should be reviewed prior to the preparation of the 2018/19 annual report and audit; 2) HIE should review its financial management capacity to ensure that it has sufficient financial skills and capacity to meet its needs and 3) HIE should review its performance analysis and financial commentary to better explain the risks and uncertainties affecting its performance measures and how its funding links to its outcomes.

With regards to processes, the multi-disciplinary team established for 2018/19 has met twice to ensure an agreed timetable for the 2019/20 annual accounts. Best practice examples have been reviewed, advice and feedback provided by Audit Scotland has been shared amongst the team to ensure annual accounts reflect the latest guidance. There has been ongoing liaison with Audit Scotland on any technical changes required to the accounts. The preparation of certain schedules is being undertaken monthly rather than as a year-end exercise. There have been transaction processing improvements made in year and the processing of more management accounting adjustments through the ledger.

Financial management capacity has been increased with recruitment of a graduate trainee who on successful completion of the graduate trainee programme will take up the post of Financial Accountant and be supported to obtain a recognised accounting qualification. The recruitment of an additional qualified accountant is also underway as well as the training of existing staff.

In terms of performance analysis and reporting, a multi-disciplinary team has been pulled together with the Communications and Marketing teams fully engaged and best practice examples have been reviewed. Lessons learned from the 2018/19 accounts are being addressed. This team will meet monthly to ensure the accounts run to timetable and discuss any critical path items. The team will also address issues which arise during the 2019/20 annual accounts preparation to ensure the annual accounts are delivered to Audit Scotland on time.

The Audit Director, Performance Audit and Best Value, Audit Scotland noted that it was good to see the progress and the input from the Committee and the lessons learned process has been good from an Audit Scotland and HIE perspective. The increased capacity in the team is good to see and Audit Scotland will work closely with HIE.

The Committee welcomed the update noting that it was good to see the report and the increase in capacity in the team. The Committee also asked if there was confidence in the plan. It was confirmed that feedback had been positive with good buy-in although some minor changes will be required. There is good involvement from for all HIE staff involved in the process.

The Committee were keen to understand the involvement of the Board and the Committee in the timetable for the accounts. This will be highlighted, and dates will be confirmed with an email issued to the Committee to clarify.

3.4 Audit Scotland 2019/20 Annual Audit Plan

The Audit Director, Performance Audit and Best Value, Audit Scotland noted that this was the fourth of a five-year audit appointment. Drawing attention to the 2019/20 significant audit risks and how these were closely aligned to the Committee plan and the items being discussed on the agenda for the meeting show that the focus is in the right areas.

The annual report and accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support the judgements and conclusions. Audit Scotland will also consider the wider environment and challenges facing the public sector. The audit approach includes the following. 1) Understanding HIE's business and the associated risks which could impact on the financial statements; 2) Assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements; 3) Identifying major transaction streams, balances and areas of estimation and understanding how HIE will include these in the financial statements; 4) Assessing the risks of material misstatement in the financial statements and 5) Determining the nature, timing and extent of audit procedures necessary to provide Audit Scotland with sufficient audit evidence as to whether the financial statements are free of material misstatement.

It was further noted that challenges with the revenue budget will change the focus of the audit. There is uncertainty re the Scottish Government budget process however progress made to date in relation to financial planning will stand HIE in good stead.

The Committee noted the plan and thanked Audit Scotland for the update.

3.5 Investment Portfolio Update

Jeff Foot joined the meeting.

The Director of Business Improvement and Internal Audit provided a brief overview outlining the three areas covered being 1) The annual update on loans and equity; 2) The external environment and optimising the use of external finance and 3) Reference to HIE's own intervention strategy.

The Committee welcomed the paper which was clear and provided a good update and asked if HIE would recommend loan funding. The Interim Chief Executive outlined that HIE was looking at the changing wider environment and had been updating our intervention approach. HIE are looking to ensure we look to optimise access to loans available from other bodies and the use of Interest Relief Grants (IRG) amongst other options. HIE would need to be more innovative in putting funding packages together and other options.

Jeff foot left the meeting.

3.6 Approach to Annual Assurance for 2019/20

The Director of Business Improvement and Internal Audit provided a brief overview of the exercise undertaken on an annual basis to support the assurance review and reporting requirements. Outlining that HIE undertakes an exercise to confirm internal controls have been working appropriately during the year. This is then reported to the Scottish Government Sponsor Team through submission of an Internal Control Checklist and Interim Assurance Statement, with a final Assurance Statement provided on completion of the annual accounts process.

Undertaking this exercise also supports completion of the Governance Statement for HIE's annual accounts and highlights areas with scope for improvement which can be fed into the Business Improvement programme.

The Committee noted the update and the assurance provided by this approach.

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4.1 BIIA Update

4.1 a Assurance Plan Progress Update

4.1b Business Improvement Update

Both of these items were covered together with the Director of Business Improvement and Internal Audit providing an update on the priority improvement actions required to implement the Business Improvement priorities agreed following discussions with Senior Management Team, Leadership Team, HIE Board and Risk and Assurance Committee. This is aligned to the strategic discussion being progressed as part of HIE's Operating Planning process.

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. In December 2018, the HIE Board approved Phase 1 of the Business Transformation programme which includes 1) Discovery phase to include consolidation of work done to date and further work around data, performance measurement and finance; and 2) Implementation of a core Microsoft Dynamics environment including customer management, customer portal, data warehouse and business application solutions.

Through participation in the Business Support Partnership Programme significant HIE resource has been deployed to support and influence the design and delivery of a Target Operating Model (TOM) for new client support arrangements across Scotland. In addition to being members of the Partnership Programme Board HIE staff are actively involved in the Steering Groups who are engaged in more detailed design and delivery work-strands.

Across Strategy and Business Improvement there are a wide range of integrated, supporting and enabling actions required, many of which are under way. Work will continue to ensure alignment and prioritisation of this work around strategic clarity and effective and efficient implementation, having regard to the resource context. In addition, there is extensive collaboration activity which is ongoing and the work under HIE's Business Transformation programme which are key to supporting the delivery of a highly effective operating environment.

The Committee noted that they were pleased to see the paper and it was good to know what is planned and seeking assurances that there was enough resource to deliver. It was confirmed that there is sufficient resource both internally and externally and a collaborative approach to the change agenda. It was noted that collaboration was more important now with organisations retaining their own checks but working together on wider governance.

Note: Belinda Oldfield left the meeting at this point. It was recognised that the meeting was no longer quorate however would continue to take the items for information only.

4.2 Risk

4.2a Risk Register as at February 2020

4.2b Risk Process Update

The Director of Business Improvement and Internal Audit provided an update to the Committee outlining that HIE is fully active in understanding and mitigating risk with a high level of input to this process by the HIE Leadership Team. The process for recording risk is changing and will be rolled out across all business units from 1 April 2020. A short life group has been set up to include members of the Committee and Board members to refresh risk statements.

The Committee welcomed the update noting the good progress being made and the good session held with the Committee in early January 2020, requesting an update at the next meeting in June.

4.3 Customer Service Update to December 2019

The Director of Business Improvement and Internal Audit provided a brief update to the Committee noting that there are a small number of themes where there are repeated requests for information including Cairngorm Mountain and Space.

Freedom of information requests have become increasingly complex and voluminous with both the volume and challenging nature of these requests making it increasingly difficult to respond to statutory timescales with at least a third of the workload attributable to regular correspondents. There has also been a continued trend of increased requests for review and appeals to the FOI Commissioner.

Early identification of customer issues which may come in through different routes such as MSP correspondence, media requests, FOI requests, complaints etc. can help ensure that issues are appropriately identified and dealt with effectively. To support recognition of this, we contribute to a weekly report to the Leadership team which provides an overview of these issues.

This update was noted.

4.4 Cyber Security Update

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

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

4.5 Updated Procurement Strategy 2018-2021

Iain Considine joined the meeting.

The Head of procurement provided an update to the Committee on the changes that have been made to the strategy, with the aim of publishing the updated strategy by April 2020.

HIE published its procurement strategy in 2018 for the period to March 2021. This was approved by the HIE Leadership Team and Risk and Assurance Committee in both 2018 and 2019. Under the Procurement Reform Act, HIE has an obligation to review the strategy annually and update it as required with any relevant updates and amendments. A larger review of the strategy will be conducted in 2020 with a view to presenting a new longer-term strategy to take effect from April 2021.

The key areas to note are that the targets year on year are updated when the new statistics are available against performance, this is expected to be in June 2020. The reference to external procurement champions has been removed with the procurement team now involved in any procurement activity where the value is over £10k. This will help to reduce maverick spend with more control and reasoning for non-competitive awards.

The Interim Chief Executive noted that the maverick spend was a cultural issue and the team were doing a good job. There are now conscious decisions made with regards to maverick spend and there is better engagement on this.

The updates were noted and a request to represent to the Committee at the next meeting.

4.6 Any Other Business

5.6a Training and Development Next Sessions

A timetable to be agreed in advance for development sessions and topics for the sessions to coincide with Committee meetings.

The Head of Better Regulation and Enterprise Sponsorship, Scottish Government updated that further advice would be issued to public bodies in relation to Coronavirus and to check that contingency plans were in place.

The Interim Chief Executive confirmed that this had been covered at the Leadership Team the previous day, HIE was taking advice and relaying to staff with planning in place to reduce risk. This is now a fixed agenda item with Facilities Management team involved and working on this.

The Director of Finance and Corporate Services confirmed that HIE will react to advice and to the evolving situation and take precautions and make any reasonable adjustments required.

4.7 Date of Next Meeting

The date of the next meeting is scheduled for 2 June 2020.

5 ITEMS FOR INFORMATION CUSPAIREAN AIRSON FIOSRACHADH

5.1 Brexit Approach Update

This report was noted.

Adrian Kitson
Head of Executive Support 03
March 2020