



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

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

PRESENT:

Alistair Dodds (Chair)
Angus Campbell
Donald MacRae
Belinda Oldfield

IN ATTENDANCE:

Charlotte Wright	Chief Executive
Nick Kenton	Director of Finance
Sandra Dunbar	Head of Business Improvement and Internal Audit (BIIA)
Maggie Bruce	Senior Audit Manager, Audit Scotland
Jill Rosie	Enterprise Sponsorship Manager, Scottish Government, items 1 - 14 (telecon)
Chris Roberts	Head of Corporate and Media Relations
Susan Smith	Head of Business Development, item 7
David Oxley	Director of Business and Sector Development, items 8, 9
Allan McIlwaine	Senior Business Development Manager, item 9
Louse MacMillan	Compliance and Risk Manager, items 9, 10

1 Apologies

The Chair welcomed everyone to the meeting, including new Committee members Angus Campbell and Belinda Oldfield. No apologies had been received.

2 Declaration of Interests

The Director of Finance and Corporate Services declared a non-financial interest in item 7, *Cairngorm Mountain*, as he had recently been appointed by HIE as a director of the agency's new subsidiary, Cairngorm Mountain (Scotland) Limited. The Committee noted the Director's interest and agreed that this did not present a conflict.

3 Minutes of the Risk and Assurance Committee meeting held on 13 August 2018

The minute of the meeting held on 13 August 2018 was approved.

4 Matters arising

4a HIE Finance team resource

With reference to item 5b, *Draft Annual Audit Report*, the Committee asked what progress had been made in addressing Audit Scotland's recommendation that HIE review skills and capacity required to maximise the effectiveness of HIE's Finance team. The Director of Finance and Corporate Services confirmed that work was in hand. Recruitment had concluded for a vacant post that had been reconfigured to match present needs. Future direction would be influenced by a financial planning session taking place at the December

Board meeting and systems would continue to be reviewed and optimised. The Committee requested a verbal update at its next meeting, in March 2019.

4b Orkney Research and Innovation Campus

With reference to item 12, *Orkney Research and Innovation Campus update*, the Committee welcomed news that interviews were due to take place the following day for the position of ORIC Executive Director.

4c Lobbying (Scotland) Act

The Committee noted that a report on implications for HIE and its clients arising from the Lobbying (Scotland) Act 2016 would be presented at its next meeting, in March 2019.

5 Matters arising from HIE Board meetings on 21, 23 and 26 November 2018

All matters arising from these would be covered under item 7, *Cairngorm*.

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

7 Cairngorm Mountain

Susan Smith joined the meeting.

The Head of Business Development and the Head of Business Improvement and Internal Audit (BIIA), presented a report summarising HIE's actions to secure business continuity at Cairngorm Mountain. Staff had planned for a range of scenarios and there was a need to maintain pace following the decision by directors of the operating company, Cairngorm Mountain Ltd (CML), to put the business into administration.

The paper focused on due diligence that had been undertaken by HIE to appraise options for a managed exit by CML and current efforts to work with administrators to secure an optimal outcome for the company, its staff and the local community. Scottish Government consent had been obtained for HIE to set up a new subsidiary to take over operations, Cairngorm Mountain (Scotland) Ltd, which was a company limited by shares. HIE had engaged immediately with administrators, and submitted an offer to acquire CML assets. The outcome of this offer was expected shortly. It was HIE's intention to ensure that staff of CML could transfer to the new company through TUPE. HIE had also secured the services of a turnaround expert through its framework agreement with Scott Moncrieff, and established an initial interim company board as a short-term measure.

The Committee welcomed the report and examined the issues it raised in some depth. Members discussed the role of the Funicular Response Group, which HIE had established following the suspension of services on the mountain railway to enable safety inspections to be carried out. Staff confirmed that this had proven very valuable, and stakeholder engagement would continue to play an important role in informing HIE's future plans at Cairngorm.

The Committee stressed the need to learn lessons from an earlier period, when HIE had previously run operations on the mountain directly, and to establish a new business model that would prove sustainable. It was noted that HIE would seek additional Scottish Government funding to meet the significant levels of investment that would be required, and that impacts on HIE's capital and revenue budgets would be carefully assessed. The key underlying challenge remained the seasonal nature of the business, which continued to rely heavily on winter snowfall.

On the subject of the funicular, it was noted that a report by specialist engineers, who had conducted a thorough investigation of the structure, was expected shortly. High level findings had already been delivered. It was agreed that the full report would be available to HIE Board members. Members also emphasised the

importance of engaging with the operating company staff and recognised that several local businesses would be among CML creditors affected by the company's administration.

The Committee thanked HIE staff for the considerable effort that had been spent on managing this highly challenging situation and reviewing options to determine the best way forward. Next steps recommended in the paper were approved. These included confirming governance roles in HIE and with the new company; reviewing a range of governance arrangements and control framework; putting in place an implementation plan; interim management capability, including turnaround expertise, to work with CML staff; building on current stakeholder engagement; identifying skills required for a new interim company board and options to fill places, and planning strategically for the longer term.

Susan Smith left the meeting.

8 UKVL project

David Oxley joined the meeting.

The Director of Business and Sector Development presented an update on HIE's project to establish a vertical launch site for satellites, UKVL Sutherland, focusing on matters concerning governance and risk. It was noted that the land is owned by Melness Crofters Estate, a majority of whose members (60%) had recently voted to continue discussions to agree a lease with HIE. This underlined the importance of preparing and delivering a robust plan of community engagement.

Project management support was being procured. Following consultants' advice, a preliminary market survey was being planned to inform procurement of a launch site operator (LSO). The Scottish Land Court had confirmed that its approval would be required for a change of use from crofting tenure. HIE legal advisers were engaging with the Land Court to obtain clarity on this process, including any potential impact on the project timeframe. The internal resource of the project team was being reviewed.

In discussion, the Committee endorsed the need to increase efforts to engage positively with the local community and prepare fully for working with the Land Court. A strong communications and engagement plan was needed, including regular news updates and social media posts, community meetings, a web presence, and actions to dispel misinformation about the nature and scale of the project. It was recommended that staff engage with the Crofters Commission, whose presentation at the October 2018 HIE Board meeting had emphasised an appetite to progress economic development opportunities in rural areas.

The Committee welcomed the update.

9 Supporting business resilience in the Highlands and Islands and current challenges

Allan McIlwaine and Louse MacMillan joined the meeting

The Director of Business and Sector Development introduced an update to inform the Committee on the approach HIE staff take to identify organisations facing resilience challenges, actions taken in response, and reporting procedures. Processes established over the past 10 years were providing early identification of issues arising in the economy, and affecting both businesses and communities, enabling HIE to develop and implement action plans when required. It was important, however, to strike a balance and ensure that using limited staff resources to address resilience issues did not result in opportunity cost.

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

The Committee asked to be kept informed and it was agreed that a further update would be provided in June 2019.

David Oxley and Allan McIlwaine left the meeting.

10 Risk Register

The Head of Business Improvement and Internal Audit (BIIA) presented HIE's Corporate Risk Register that had been updated in October 2018. The Committee welcomed the thoroughness of the report, the robustness of HIE's approach, and demonstration of the organisation's risk appetite.

Similarities between two strategic risks (12/19 and 13/19), both concerning place-based growth, were noted for review.

Members noted that a more recent version of the register was due to be considered by the HIE Board the following day, and expressed concern that information in the report to the Risk and Assurance Committee was now out of date. It was recognised that the frequency of Board and Committee meetings created a scheduling challenge. However, members stated their view that effective governance would best be achieved if the Committee was able to review the register before the full Board, whenever possible. It was agreed that the issue of sequencing reporting to the Committee and the Board would be reviewed.

Louise MacMillan left the meeting.

11 IT disaster recovery – internal audit report

The Head of BIIA presented the final report of an internal audit on IT disaster recovery that had been commissioned jointly by HIE, Skills Development Scotland, and Scottish Enterprise, and conducted by EY. The report noted progress made to stabilise the IT environment by the three partner agencies, shared services provider EIS, and its suppliers. This included ongoing work to move systems onto cloud services, in line with strategy. A partnership programme had been initiated to reduce the number of legacy systems, and management had highlighted the need to accelerate this.

Overall, the current IT disaster recovery provision did not meet partners' requirements and would be improved, with the delivery of strategic programmes enabling change. The report included an action plan to address current weaknesses and deliver improvements. The Committee welcomed this and stressed the need to ensure that actions identified in the plan were monitored and carried out.

The Committee noted that other organisations ran scenarios to test disaster recovery, and recommended that HIE should consider introducing this practice. Looking to future arrangements, it was noted that the outsourced arrangement was being retendered and that provision of core services would be market tested. Concern was expressed over the present lack of a business continuity plan for HIE, and the Committee was assured that work is in hand to address this.

Updates will be provided to future meetings. The Committee requested that future reports be written more clearly, with jargon kept to a minimum.

12 Tax review update

The Director of Finance and Corporate Services reported on work to review and update all HIE tax-related processes, in response to two compliance reviews by HMRC. A review of employment tax compliance had begun on 5 October 2016 and was now complete. A VAT compliance review had begun on 23 November 2017 and was still under way.

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

The paper included a series of recommended next steps, including working closely with Audit Scotland as part of the annual accounts process; introducing an app to submit HMRC returns digitally; training for Finance

staff, agreeing a pro-active IR35 procedure (relating to contractors), and commissioning a follow-up review of tax arrangements with Scott Moncrieff. The need for staff across HIE to be aware of these issues was also noted.

The Committee welcomed the update.

13 Approach to dealing with fraud

The Committee welcomed a report from the Director of Finance and Corporate Services and the Head of BIIA, describing an action plan that was now being implemented to address fraud risk and ensure compliance with the Criminal Finances Act 2017. HIE's decision to commission NHS Counter Fraud Services to support a range of activities and provide access to knowledge was welcomed as a good example of collaborative working.

14 Public Services Reform

The Director of Finance and Corporate Services and the Head of BIIA presented a report showing expenditure for 2017-18 under a range of categories defined in 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 categories defined in this Act. Following review by the Committee, the figures will be published on the HIE website.

15 Court case

The Head of BIIA gave a verbal update on progress of a current court case concerning HIE and Scottish Government financial support for an infrastructure development project at Nigg Energy Park. Proceedings were ongoing and could continue into 2020.

16 Audit Scotland review – superfast broadband

The Committee noted the content of a further progress update from Audit Scotland, following a previous review of superfast broadband provision across Scotland. The importance of applying lessons learned was agreed.

17 Business Improvement and Internal Audit update

The Head of BIIA presented a report summarising activity led by the BIIA team in the seven months from 1 April to 31 October 2018. During this period, the team had delivered 36 reports and a significant number of presentations, papers workshops and other activity that had contributed to business improvement and assurance.

Discussion highlighted actions designed to continue to improve support for HIE clients and customers, including plans for a new digital entry model being taken forward in collaboration with Scottish Enterprise. The Committee also noted the current high volume and complexity of information requests that required a great deal of staff resource.

The Committee recorded their appreciation for the excellent work carried out by the BIIA team. Concerns were expressed over the present level of workload being undertaken, and it was recommended that priorities should be reviewed.

18 HIE participation in the National Fraud Initiative 18/19

The Committee welcomed a report on action being taken by HIE to participate in the National Fraud Initiative (NFI) 2018-19. The NFI is a national counter-fraud exercise, coordinated by Audit Scotland to identify fraud

and error in public bodies. HIE is a mandatory participant. The report included outcomes of the 2016-17 exercise, when no fraud investigations concerning HIE had taken place.

For information, a copy of the Cabinet Office newsletter *NFI Matters, Edition 1* was also shared with the Committee.

19 Date of next meeting

It was noted that not all members could attend the next scheduled date for the Committee of 5 March 2019. Alternative dates will be explored. The session may be expanded to include training based on a new Scottish Government handbook for Audit and Assurance Committees.

20 Any other business

There was no other business.

Chris Roberts
10 December 2018