

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

**MINUTE OF THE MEETING HELD ON 20 SEPTEMBER 2022 AT 0900 AT AN LÒCHRAN,
INVERNESS CAMPUS, AND BY TELECONFERENCE**

PRESENT (ONLINE): Donald MacRae (*Chair*)
Belinda Oldfield
Calum Ross

PRESENT (IN PERSON): Angus Campbell

IN ATTENDANCE (AN LÒCHRAN):

Stuart Black	Chief Executive
Sandra Dunbar	Director of Business Improvement and Internal Audit (BIIA)
Nick Kenton	Director of Finance and Corporate Services
Louise Macmillan	Audit and Assurance Manager
Chris Roberts	Head of Communications
Andrew Jenkins	Head of Finance, items 2.2, 3.2, 3.3, 3.4

IN ATTENDANCE (ONLINE):

Pauline Gillen	Audit Director, Audit Scotland
Maggie Bruce	Senior Audit Manager, Audit Scotland
Andrew Carton	Team Leader of Sponsorship, Scottish Government
David Hamilton	EU Funding Manager, item 2.1
Rachel Hunter	Director of Service Delivery, item 2.2
Janie Sheridan	Head of Business Transformation, item 2.4
Eunice McAdam	Partner, Saffery Champness, item 3.2
Lorna Gregson-MacLeod	Head of Planning and Partnerships, item 3.4
Ewan Lamont	EY, items 4.3, 4.4
Alexander Maciver	Information Systems Manager, items 4.3, 4.4
[Name redacted due to Data protection purposes]	
[Name redacted due to Data protection purposes]	
Sylvia Beswick	Head of Procurement, item 4.5

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

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

1.2 Declarations of interest

There were no declarations of interest in relation to any matters on the agenda.

1.3 To approve minute of the Risk and Assurance Committee meeting held on 7 June 2022

The minute was approved, with one correction to the list of attendees.

1.4 Matters arising from the Risk and Assurance Committee meeting and action note from the meeting of 7 June 2022

It was noted that code of conduct training for Board members would be arranged in due course and that a follow-up discussion on cyber security had been arranged for today's meeting of the committee.

1.5 Matters arising from the HIE Board meetings held on 28 June 2022 and 30 August 2022

The Director of Business Improvement and Internal Audit informed the Committee that the Court Auditor dealing with next steps following the legal case *LC Management Services V Scottish Ministers and HIE*, which had been decided in HIE's favour, had awarded HIE expenses totalling £633,000. In response to a question from the Chair, the Director of Finance and Corporate Services confirmed that any expenses received by HIE as a result of this decision would be treated as revenue and counted against a previous financial year as this was a legacy item.

2 CURRENT AND EMERGING ISSUES **CÙISEAN LÀITHEIL**

2.1 *[Item removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].*

2.2 *[Item removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].*

2.3 Sanctions update

The Committee noted a report from the Director of Business Improvement and Internal Audit (BIIA), covering the approach being taken by HIE to follow Scottish Government direction and legislation to manage sanctions arising from the war in Ukraine. Actions included setting up a sanctions group and engagement with partner agencies to discuss issues and ensure consistency, both internally and externally, and undertaking due diligence on transactions, including procurement as well as client support.

HIE's Leadership Team had agreed that a focus group should be held to define and apply learning from the approach to date and inform a proportionate approach in future, concentrating on higher risk activity. While a blanket ban was in place for companies and individuals on the official sanctions list, other cases were appraised by HIE individually.

In response to a question from the Chair, the Chief Executive confirmed that companies in the Highlands and Islands will have exported to Russia.

2.4 Transforming delivery – being a Best Value organisation

Janie Sheridan joined the meeting.

The Head of Business Transformation presented a strategic approach to continuous improvement, aiming to ensure that, internally and externally, HIE was regarded as an organisation that delivers best value and value for money, inspires innovation and achieves successful outcomes. The approach drew

various themes, metrics of success and associated governance into one model, and it was proposed that HIE would now develop a balanced scorecard against which success can be measured.

The Committee endorsed the approach being taken, although there were some concerns that the number of metrics appeared high. Members also recommended that a focus on controllable costs, including headcount, would have a positive impact on efficiency, and requested that the Board should see targets set on key metrics. In response to a question on how place-based impacts would be measured, it was explained that place was a cross-cutting theme and that impacts would be shown in a range of measures, with intervention rates and resource prioritisation given as examples.

Janie Sheridan left the meeting.

3 ACCOUNTS RELATED
STUTHAN CUNNTASACHAIL

3.1 Audit Scotland verbal update

Andrew Jenkins joined the meeting.

The Audit Director, Audit Scotland, confirmed that HIE’s draft annual report and accounts had been received in line with the programme timetable and the main areas were currently being reviewed. This work was progressing well and HIE had responded to requests for evidence and working papers.

The Committee urged Audit Scotland to progress as quickly as possible, noting that HIE was expected to give evidence along with other agencies to an upcoming Scottish Parliament committee, on a date to be arranged, and that there was a requirement for HIE’s accounts to be laid in parliament by the end of December. Audit Scotland stated that the timetable which had been set at the start of the process remained in place and was realistic, given the organisation’s workload which continued to be affected by the impacts of the pandemic.

3.2 Group Companies audit reports 2021/22

- 3.2a Orkney Research and Innovation Campus**
- 3.2b Wave Energy Scotland Ltd**
- 3.2c HIE Ventures Ltd**
- 3.2d Cairngorm Mountain (Scotland) Ltd**

Eunice McAdam joined the meeting.

Independent auditors Saffery Champness confirmed that reporting to Audit Scotland in respect of the HIE group companies had been completed, with clean opinions given for all four. Accounts for HIE Ventures Ltd and Wave Energy Scotland Ltd had been signed, while those for Orkney Research and Innovation Campus (ORIC) and Cairngorm Mountain (Scotland) Ltd (CMSL) were expected to be signed imminently.

In all cases, work on significant risks had all been performed satisfactorily and there had been no mis-statements identified. There were no issues arising or significant transactions that required discussion. In response to a question from the Chair, the auditor confirmed that all accounts had been agreed on a going concern basis.

Audit Scotland asked HIE to confirm when the accounts for ORIC and CMSL would be signed and HIE’s Head of Finance agreed to report back with this information.

The Committee welcomed the findings of the group companies audits and thanked the auditor for her report.

Eunice McAdam left the meeting

3.3 BIIA reports – expenditure reviews

3.3a Composite significant transactions report for 2021/22

3.3b Other expenditure update for 2021/22

The Director of Business Improvement and Internal Audit (BIIA) presented key findings from the *Composite Significant Transactions report* and the *Other Expenditure update for 2021/22*. Between them, the reviews had covered 38% of total expenditure. Both exercises were conducted annually, with issues arising from findings noted for the accounts and lessons learned where there was scope for improvement. Work was substantially complete and reviews were due to conclude by the end of September. Overall, the level of assurance provided was classed as *reasonable*, the second highest classification.

The *Significant Transaction* reviews noted one overpayment of £9k that had been brought to the attention of the Director of Finance and Corporate Services and adjusted in the unaudited accounts.

The *Other Expenditure* reviews focused on funding disbursed through Covid Consequentials (CC), funding from Scottish Government related to Covid recovery and HIE programmes such as Greening Community Assets. To date, two cases had been referred to the Director of Finance and Corporate Services, and adjustments made to the annual accounts.

Other issues and improvement opportunities arising from these reviews were being compiled for discussion with relevant directors, in line with the objectives of HIE's internal Process Change Group.

In response to a question from the Chair, Audit Scotland confirmed that HIE's reviews covered a large sample of transactions, providing good assurance. The Director of BIIA noted that any specific project findings in the reviews were reported to individual business units to ensure full understanding of circumstances, and that lessons learned were important to inform HIE's approach to diligence as well as expenditure.

The Chair welcomed the reports and commended the team for their work. The Committee underlined the need for HIE to aim to achieve assurance levels of *reasonable* or *substantial* (the highest classification).

3.4 Annual accounts

3.4a HIE unaudited annual report and accounts 2021/22

3.4b Timetable update

The Head of Finance confirmed that draft accounts had been submitted to Audit Scotland on schedule. The draft performance report had also been provided but would require amendments to incorporate comments from the Scottish Government and HIE's Leadership Team. Audit Scotland indicated that it would be more efficient to review the performance report after these amendments had been made.

The Chair asked the Head of Communications to review wording in the Foreword to ensure accuracy and consistent messaging. Members commented that the draft was generally well presented and readable, although language used in risk descriptors could be clearer and should be revised. The Chair invited the Committee to submit any further comments directly to HIE staff (Head of Finance, Head of Communications, and Audit and Assurance Manager) for inclusion in the next draft.

The Director of Finance and Corporate Services drew attention to key sections of the report and accounts, including clarifying that parts of the management commentary, including the *future outlook* section, would be reviewed for accuracy in light of circumstances prior to final signoff.

Issues that were discussed included the impact of changing interest rates on pension schemes, which had the effect of improving HIE's net liability. The Committee noted that this was a complex area and were assured that judgments made by the HIE pension scheme actuaries had been discussed with HIE's Finance team and triangulated with information from independent advisers. Audit Scotland highlighted that the HIE pension scheme was subject to continual review, including a formal triennial evaluation. Summing up, the Chair observed that rising inflation as well as interest rates would make this area even more challenging.

4 PLANNED ACTIVITY
GNÌOMHACHDAN PLANAICHTÈ

- 4.1 Plans for 2022/23:**
 - 4.1a HIE Assurance Plan**
 - 4.1b Risk and Assurance Committee Plan**

The Director of BIIA presented the HIE Assurance Plan for 2022/23, which had been discussed and approved by the HIE Leadership Team.

Prepared annually, the assurance plan supports HIE management in the delivery of HIE priorities and achievement of regional outcomes, and provides the Accountable Officer with assurance on the effectiveness of internal controls. In preparing the 2022/23 assurance plan, HIE had sought to understand the current operating environment and considered a range of factors including strategic direction, current systems and operating environment, emerging issues, key risks, lessons learned in 2021/22, and regulatory environment.

In response to a question from the Chair, the Director of BIIA confirmed that HIE recognised the need for flexibility to respond to new or unforeseen requirements. Contingency time and the ability to draw on external support had been built in to support the organisation in managing the effective delivery of the plan. There will be a need to keep the plan under review and ensure it remains focused on issues of highest risk and resources appropriately prioritised.

The Committee welcomed the assurance plan and agreed with the approach being taken.

The Committee also reviewed the 2022/23 Risk and Assurance Committee Plan, which aims to ensure that it carries out its role effectively. The new plan considered various sources of assurance and the changing external environment. It had a focus on key corporate risks and planned activity was designed to ensure considerations were timed appropriately. There was also flexibility to enable the Committee to respond to emerging issues throughout the year. The Committee Plan was approved.

- 4.2 Risk:**
 - 4.2a Risk register Sept 22**
 - 4.2b Risk appetite statements**

The Director of BIIA invited the Committee to consider the Corporate Risk Register, highlighting changes that had been made since it had last been reviewed by the HIE Board, on 30 August.

These included an increase in the risk score for in-year financial challenges as a result of the two percent revenue reduction that was now required by the Scottish Government in 2022/23, and a new corporate risk on EU claims. There was discussion on whether the new financial challenges risk should

reflect the medium-term outlook rather than the present year alone, and staff confirmed that both levels of risk were being kept under review.

The Committee then considered HIE's risk appetite statements, noting that changes had been made to align with the new National Strategy for Economic Transformation, application of intervention levels and flexibility on use of budgets. The statements endorsed the principle of taking intelligent and informed risks as necessary to achieve economic and community development. They also reflected the current economic context, with a greater emphasis on HIE-led projects, and less reliance on third party investments, as key drivers of economic activity and sustainable growth.

Members agreed there was a need to align appetite with risk management arrangements, and ensure these were embedded within HIE's project appraisal and delivery approach, with actions taken to mitigate risks. It was also noted that training and development sessions were planned to raise awareness of risk appetite in the context of HIE's delivery.

The Committee welcomed the risk appetite statements overall and endorsed HIE's approach. It was noted that HIE was using five levels of risk appetite classification – averse; minimalist; cautious; open, and hungry – and the Committee asked staff to consider whether certain statements that were currently classed as 'open' could be reviewed and potentially changed to 'hungry'. HIE's openness to increase its level of investments, including the use of financial transactions, was noted, with members suggesting greater use of loans and equity rather than grants, when appropriate. An increase in the level of negative reserve, from £7m to £10m, was also welcomed.

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

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

4.5 Annual Procurement Report

Sylvia Beswick joined the meeting.

The Head of Procurement presented an update on HIE's Annual Procurement Report 2021/22, seeking approval for this prior to publication on the HIE website and submission to the Scottish Government. The Procurement Reform (Scotland) Act 2014 requires all Scottish contracting authorities that spend £5 million or more a year on procurement to publish a procurement strategy and to report annually on progress against the strategy and regulated procurements.

Members noted that areas for improvement had been identified and were being actioned, including the introduction of a forward plan which was attached as an appendix to the report. Discussion highlighted opportunities for HIE procurements to generate community benefits across the Highlands and Islands through local contractors and sub-contractors. It was noted that the use of local sub-contractors on the current Cairngorm funicular reinstatement programme provided a positive example of this approach. It was agreed that the Procurement team will look into how information on sub-contractors can be collated for inclusion in future reports.

The Committee approved the 2022/23 report and were content for it to be published by HIE and submitted to the Scottish Government as requested.

Sylvia Beswick left the meeting.

4.6 RAC development programme

This item had been covered earlier in the meeting, during discussion on the Risk and Assurance Committee annual plan (item 4.1).

4.7 Any other business

There was no other business.

4.8 Date of next meeting

- A session on subsidy is planned for 4 October 2022.
- The next meeting of the Risk and Assurance Committee will be on 6 December 2022.

Chris Roberts
19 September 2022