

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

MINUTE OF THE MEETING HELD ON 6 DECEMBER 2022 AT 0900 AT AN LÒCHRAN, INVERNESS CAMPUS, AND BY TELECONFERENCE

PRESENT (ONLINE): Donald MacRae (*Chair*)
Belinda Oldfield
Calum Ross
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
David Oxley	Director of Strategic Projects, item 2.1
Rachel Hunter	Director of Service Delivery, item 2.2
Andrew Jenkins	Head of Financial Services, items 2.2, 3.2,
Lorna Gregson-MacLeod	Head of Planning and Partnerships, item 3.2
Chris Roberts	Head of Communications, item 3.2

IN ATTENDANCE (ONLINE):

Pauline Gillen	Audit Director, Audit Scotland
Maggie Bruce	Senior Audit Manager, Audit Scotland
Andrew Carton	Team Leader of Sponsorship, Scottish Government
Adrian Kitson	Head of Executive Office
David Hamilton	EU Funding Manager, items 2.3, 2.4
Rob Clarke	Head of Policy, item 2.3, 2.4
Alexander Maciver	Information Systems Manager, items 4.5, 4.6

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting noting the busy agenda. 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 20 September 2022

The minute was approved.

1.4 Matters arising from the Risk and Assurance Committee meeting and action note from the meeting of 20 September 2022

The Director of Finance and Corporate Services clarified a point that was covered in the minute of the meeting held on 20th September. LC Management Vs Scottish Ministers legal case, a proportion of expenses recoverable had been already accrued and therefore would be accounted for in previous financial year, but any amounts in addition to this will be recorded in the financial year received.

- Transforming delivery – best value organisation – has progressed discussion as part of the Board strategy session.
- Group companies audit report – CMSL & ORIC both signed.
- Cairngorm – legacy legal case is in court for the next procedural hearing on 14 December at which point the Judge is expected to take a decision on next stage i.e. a date for proof and or any debates. The funicular reinstatement project remains a complex project but is nearing completion with final sign off by Department of Transport expected and a return to operation as soon as possible.
- *[Paragraph removed in the interests of the effective conduct of public affairs].*
- Data Protection, this was a matter from the Data Protection Officer’s annual report to the Board in October 2022 where there were 2 red risks – 1) verbal update on establishment of formal Data Protection Impact Assessment process – now reduced to amber as action taken and 2) Paper to March Board on Implementation of retention schedules across HIE.

All other matters arising were covered on the agenda for the meeting.

1.5 Matters arising from the HIE Board meetings held on 25 October 2022

There were no matters arising that had not already been covered.

2 CURRENT AND EMERGING ISSUES **CÙISEAN LÀITHEIL**

2.1 Space Hub Sutherland

David Oxley joined the meeting.

The Director of Strategic Projects provided an update on risks associated with this project noting that there had been a significant downturn in the overall risk for the project which reflects the transfer of responsibility to Orbex with the conclusion of the head lease.

[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 Committee noted the update and highlighted that every effort must be made to reduce the risk of non-approval of NDA funding.

David Oxley left the meeting.

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

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

2.4 EU Structural Funds – Programme Closure

The Head of Policy updated the Committee on the EU Structural Funds Programme closure with final claims due to be submitted by 31 January 2024. A key risk, outwith HIE’s control, was highlighted in relation to the length of time Scottish Government are taking to pay claims. Only one claim can be submitted at a time which could cause an issue when approaching programme closure if there is still a claim being processed which could prevent a claim being submitted at the close-off date. The Scottish Government are to provide further resource to their claim processing team and HIE is revising the claims management process & timetable for claim submission.

At the point of final claim, there is limited time for dialogue on additional information requirements. It was however noted that outstanding projects will likely be capital projects so easier to manage and evidence. Scottish Government has confirmed that it will pay all claims in the system.

The Chief Executive confirmed that a letter had been received from Colin Cook, Director of Economic Development at Scottish Government regarding the final claim deadline and a response had been sent by the HIE Chief Executive outlining that HIE understood the timelines and highlighting that the claim processing issues at SG with were out with HIE’s control. It was agreed to circulate the letter to the Committee.

The Committee asked if claims could be doubled-up and submitted, the EU funding Manager confirmed that it was not possible to claim while projects were still spending. The Chair asked the Team Leader of Sponsorship at Scottish Government if this was an issue elsewhere. He confirmed that there were resourcing issues and that SG Sponsor Team would continue to provide support to HIE.

The Chair also asked for confirmation of who within HIE was keeping this under review. The Director of Business Improvement and Internal Audit confirmed that this is on the Corporate risk register and is also discussed at the funding governance group chaired by the Director of Strategy and Regional Economy.

David Hamilton and Rob Clarke left the meeting.

3 ACCOUNTS RELATED STUTHAN CUNNTASACHAIL

3.1 Audit Scotland Annual Report for 2021/22

3.1a Audit Scotland covering letter and letter of representation

The Audit Director, Audit Scotland reported that work on 2021/22 annual accounts was substantially completed and subject to some final checks of revised sets of accounts and advice from the Risk and Assurance Committee. On signing by the accountable officer, Audit Scotland will be able to provide an unqualified opinion.

The report will be finalised and published on the Audit Scotland website noting that there are no significant errors to report (the threshold being £42k).

The Audit Director asked if the Committee were aware of any additional issues, suspected fraud etc that had been picked up since the review had been undertaken. The Committee confirmed that there were none.

The Independent Auditors Report will be signed once the accounts have been authorised. The letter of assurance will be signed by the accountable officer providing management assurances and will be provided at the same time that the accounts are signed.

3.1b Draft Annual Audit Report

Lorna Gregson-MacLeod and Chris Roberts joined the meeting.

The Audit Director, Audit Scotland provided a summary of the findings from the work undertaken during the 2021/22 audit. The key messages outline the main findings from the audit and covers the audit of the annual report and accounts and the 4 wider code dimensions – financial sustainability, governance, transparency and value for money.

There were three significant findings this year which is a significant improvement on previous year. Two relate to treatment of the Cairngorm Funicular provision (one being an increase of £1.0m and one being changes across lines in the accounts with no impact on the bottom line) and the third was in relation to the expected credit loss for loans £0.5m adjustment.

In relation to Risks of material misstatement there are 2 risk areas, 1) Risk of material misstatement due to fraud caused by the management override of controls and 2) Risk of material misstatement in accounting estimates and judgements in the provisions balance. For the first all were satisfactory, in the second 2 points were identified with adjustments now made and audit comfortable with. In relation to the valuation of pension liabilities and land and buildings, there was reliance on the work of actuaries and valuers with no issues identified.

Three issues were identified in relation to the performance report – 1) Timing of report for audit; 2) Ensuring compliance with the framework and 3) Accuracy of reporting to the Board. This was discussed in detail with the Committee and Audit Scotland were asked to reflect on the wording used in the report to better convey the reality of what happened, in particular the delayed timetable to accommodate Audit Scotland and the early consideration of the accounts by the Risk and Assurance Committee in September. The Committee delegated approval of revised wording to the Chair of the Committee.

It was highlighted that Publication of Board and Risk and Assurance Committee minutes on the HIE website needs to be brought up to date to demonstrate accountability and transparency. Assurance was given that this was in hand with the aim of bringing them up to date by the end of January 2023.

The Team Leader of Sponsorship, Scottish Government raised awareness of a communication received the previous day that a deadline had been set for the submission of the accounts which was now 4:00pm on Friday 12 December which was earlier than HIE had expected. The accounts will be laid before Parliament on 22 December.

The Chair thanked Audit Scotland, highlighting the good outcome which is a big improvement and noting the need to do better on the publication of minutes. HIE will also aim to meet the new deadlines.

3.1c Audit Scotland letter – Statutory Fees for 2022/23 audits

The letter and fee was noted by the Committee.

3.2 HIE Annual Report and Accounts 2021/22

The Director of Finance and Corporate Services thanked the Audit Director and the Senior Audit Manager, Audit Scotland and the team for their work on the HIE audit noting that the regular meetings had worked well.

The Director brought an inaccuracy in the Cover paper to the attention of the Committee to confirm that technically HIE are not asking the Committee to delegate to the Accountable Officer (AO) the authority to sign the Annual Report and Accounts, but provide advice to assist the AO in reaching a decision on signing the Annual Report and Accounts. The Committee noted the change.

There were three significant findings, two of which related to funicular issues not known at the time the accounts were completed and there were no material misstatements. This is an improvement on the previous year when there were six significant findings of which three were classed as material misstatements.

HIE had put a lot of effort into reviewing the way the financial information was presented and it was encouraging to see the comment in the draft Annual Audit report that the overall presentation of financial information was improved. HIE note the recommendations to continue to review this and will do so.

In relation to the accounts, the Director updated on the movements between the unaudited accounts and the final version as well as future financial outlook. There were three changes to budget lines, these are 1) £155k increase on Resource relating mainly to a write off of an invoice and an adjustment to prepaid rent; 2) £514k increase on Expected Credit Losses, relating to adjustments on two loans and 3) £978k on Annually Managed Expenditure relating to an increase in Funicular reinstatement provision.

There was an overspend on Resource by £1.2m (Business As Usual underspend of £0.8m offset by Cairngorm Mountain Scotland Limited/Cairngorm overspend of £1.7m and Scottish Wedding Industry Fund overspend of £0.3m), these are well within the limit set by Scottish Government in relation to Cairngorm, HIE underspent Capital by £0.9m due to slippage key projects notably the Cairngorm Funicular and the Life Sciences Innovation Centre. *[Sentence removed due to commercial sensitivity]*. Expected Credit Losses (ECLs) were almost £2m underspent – primarily the impact of releasing the provision for a shareholding that was sold during the year. It is now too late to utilise any of this available ECL budget if HIE incur a write off on the remaining EU claims.

In terms of future outlook there was nothing more definite to report compared against the update provided in September. The future outlook from the point of view of the accounts includes the current year and an update will be provided to members at the Board next week. HIE remains on course to meet its financial targets. Beyond this year, the official published position remains as per the Resource Spending Review in May. However, there is suggestion from Scottish Government that HIE will incur Resource reductions larger than those indicated in May. This should be confirmed by the Budget on 15 December. The Board has been kept updated at each meeting but nothing has officially changed to date.

The Head of Financial Services provided a summary of the adjustments to the Committee which included Cairngorm Mountain Limited Consolidation; *[item removed due to commercial sensitivity]*; Cairngorm Funicular Provision 21/22; Prepaid rent adjustment and increase in loans provision.

The Committee noted the update.

Lorna Gregson-MacLeod and Chris Roberts left the meeting.

3.3 Proposed final certificate of assurance

The Audit and Assurance Manager presented an update to the Committee seeking agreement for the final assurance statement to be submitted to Scottish Government Sponsorship Team. The final

certificate of assurance provides a summary of issues that the Accountable Officer needs to draw to the attention of the Scottish Government. These are Cairngorm Mountain, Economic uncertainty and Budget challenges. The statement also concludes that internal controls working effectively.

The Committee approved that the Chief Executive could sign the certificate of assurance and were happy to endorse the sign-off of the accounts.

4 **PLANNED ACTIVITY** **GNÌOMHACHDAN PLANAICHTÈ**

4.1 Assurance plan progress update to end October 2022

The Director of Business Improvement and Internal Audit presented a summary of progress against the agreed assurance plan for 2022/23 to the end of October 2022. All work undertaken is aligned with the corporate risk register. Reporting that a significant proportion of work undertaken in April to October 2022 has been focused on supporting the successful delivery of the annual accounts, including a significant transactions review and funding review which were considered by Audit Scotland as part of their reliance and assurance work. Significant time has also been required on diligence work on sanctions and time on supporting EU claims process.

Work is ongoing on the subsidy regime which is an evolving environment with new arrangements in place from January 2023.

It was noted that there were a high number of reds identified on the activity tracker, this is largely a timing issue with all expected work underway and on track. This is regularly reviewed and will be again at the end of December and updated if any changes required.

The Chair noted the amount of work and asked if enough resource to deliver. The Director confirmed that this was kept under review with the appropriate use of both internal and external resource where required and any areas of slippage and prioritisation discussed with the Chief Executive.

4.2 Audit recommendations follow-up reports issued 2020/21

The Audit and Assurance Manager updated the Committee on the new approach that has been developed to follow up of audit recommendations being progressed. The report highlights recommendations not implemented. The new process includes issuing a summary of agreed actions with the final report and a rolling schedule for requesting updates on action taken. Further refinements will be introduced to ensure continued improvement.

The Committee asked if there was a focus on the non-implemented list. The Audit and Assurance Manager confirmed that any outstanding actions will be followed-up and removed by next report with progress reported back to the Committee.

The Committee also asked if there was a reason why some work was undertaken by external contractors as opposed to internally. It was confirmed that this was for different reasons, the team was small and where there was specialist technical expertise required this would be contracted out. This would always be reviewed and a decision made on how best to resource. The Director confirmed that there were areas where expert resource had been secured jointly with partners and external delivery was more cost effective for example the Information System audit environment. On occasion external support can also help ensure objectivity.

The good format of the report was welcomed.

4.3 Risk Register, November 2022

The Director of Business Improvement and Internal Audit informed the Committee that this was the risk register produced and presented to the HIE Board in October and is used to focus the agenda of the Committee and keeps the plan flexible.

The Committee noted the register with interest.

4.4 National Fraud Initiative 2022/23 – approach and action update

The Audit and Assurance Manager provided an update to the Committee on the National Fraud Initiative 2022/23. This is undertaken on a biennial basis, Audit Scotland coordinates a counter-fraud exercise, working together with a range of Scottish public bodies, external auditors and the Cabinet Office to identify fraud and error. During the first year, information is uploaded and during the second year this is reported. HIE is well placed with all data uploaded and now being reviewed. The process is on track and matches will be presented by end of January 2023.

The Committee asked why the outcomes are not published. The Audit and Assurance Manager confirmed that outcomes in terms of publication relate to incidents of suspected fraud. All HIE outcomes are errors with data which is followed-up and resolved at the time and therefore there is no requirement to report.

4.5 IS Assurance Map for 2022/23

Alex MacIver joined the meeting.

The Director of Business Improvement and Internal Audit reported that HIE has a shared arrangement with the EIS Partnership for IS and information governance audits. The current supplier is EY and HIE had previously presented a draft Partnership Assurance Map to the Committee and this was a revised version for information having been updated following discussion with the Partners.

Ernst and Young reviewed the overall control environment considering management assurance, other assurance and identified areas for internal audit coverage. Three areas were identified for Internal Audit coverage – Cyber security follow up, EIS strategy and Cloud security. The plan has been approved by the EIS partnership board.

The Committee were pleased to see the report and commented on the benefits of a partnership approach to the audit activity in this area.

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

4.7 Public Services Reform Act report

The Head of Financial Services presented an update to the Committee on the 2021/22 Public Services Reform (Scotland) Act 2010 disclosure for HIE and HIEs subsidiaries and Joint Ventures. HIE is required to publish key spend information as soon as practicable each year and aims to do this as soon as possible after the statutory accounts are concluded. The report is prepared with contributions from HIE Finance and Corporate Services, Marketing, WES and Corporate and Media Relations teams and includes payments greater than £25k, consultancy, public relations, overseas travel and hospitality. In line with years 2020/21, information regarding each of the active companies HIE, WES, CMSL and ORIC is reported separately.

HIE has taken legal advice in relation to ORIC which concludes that information relating to ORIC does not require to be published by HIE and it is at HIE's discretion. HIE recognise that ORIC are 100% owned by the public sector and have liaised with Orkney Islands Council (as HIE's JV partner) who have advised that they will not be disclosing the relevant information.

The Committee raised a question in relation to the high number of payments made to Chambers of Commerce and whether the £25k limit for reporting had ever been changed and whether this should now be updated. On the first, the Chief Executive agreed to check this but also suggested that this could be due to the Chambers acting as Destination Management organisations and also jointly sponsoring events. On the second, it was agreed that the Team Leader of Sponsorship, Scottish Government would check if there were any plans to change this.

The Committee approved the report.

Andrew Jenkins left the meeting.

4.8 RAC annual effectiveness review

The Director of Business Improvement and Internal Audit provided an update on the paper presented to summarise the findings from RAC annual effectiveness review for 2022/23. In line with good practice as included in the Scottish Government Audit and Assurance Committee Handbook, the Risk and Assurance Committee undertook a self-assessment review to identify areas with scope for improvement. A number of areas for improvement have been identified with planned actions noted against each. There was also an update provided on improvement areas identified in 2021/22.

The Board Chair notes the value of this exercise and has requested something similar for the full Board. Key documents and guidance have been reviewed and a checklist drafted for the purposes of undertaking a Board effectiveness review. This is currently being considered by the Board Chair.

The Committee noted the report and agreed that it captures what is covered over the course of a year. It was noted that the actions taken from the effectiveness review were not normally reported to the Board but form part of a verbal update. The Committee Chair confirmed that he would mention this to the Board as part of a wider update on the Annual Accounts.

The Chair asked if the Audit Director, Audit Scotland had any comment on the Committee effectiveness. The Director commented that it was a good quality paper and provides clarity on what management expect from the Committee for each paper. Noting that there is a good level of discussion on risks and good use of time and agenda.

4.9 Any other business

The Chair drew attention to the documents under the resources section which included the revised Whistle Blowing Policy and Audit reports.

A virtual training session has been arranged on 12 January 2023 with the Standards Commission on the code of conduct for Board members.

HIE is liaising with Scottish Government Sponsorship Team on the new model framework.

The Senior Audit Manager, Audit Scotland noted that this was the final Risk and Assurance Committee meeting she would be attending and thanked Committee members and HIE staff for all of the support provided and the good working relationship.

The Chair noted his appreciation of the efforts and help received from Audit Scotland and thanked the Audit Director for the audit review and for listening and taking account of comments and feedback.

4.10 Date of next meeting

- The next meeting of the Risk and Assurance Committee will be on 21 March 2023.

Adrian Kitson
6 December 2022