

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

MINUTE OF THE MEETING HELD ON 21 MARCH 2023 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):

Nick Kenton Director of Finance and Corporate Services
Louise Macmillan Audit and Assurance Manager

IN ATTENDANCE (ONLINE):

Stuart Black Chief Executive
Sandra Dunbar Director of Business Improvement and Internal Audit (BIIA)
Pauline Gillen Audit Director, Audit Scotland
Kyle McAuley Senior Audit Manager, Audit Scotland
Andrew Carton Team Leader of Sponsorship, Scottish Government
Adrian Kitson Head of Executive Office
David Oxley Director of Strategic Projects, item 2.1
David Hamilton EU Funding Manager, item 2.2
Janie Sheridan Head of Business Transformation, item 2.3
Marie Mackintosh Subsidy Control Manager, item 2.3
Andrew Jenkins Head of Financial Services, items 3.2 and 4.5
Lewis MacDonald Head of Enterprise Finance, item 4.4
Alexander Maciver Information Systems Manager, item 4.6

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting and in particular Kyle McAuley from Audit Scotland who was joining the meeting for the first time. The Chair noted that Pauline Gillen from Audit Scotland would not be able to join the meeting until circa 11:30am which has necessitated a slight change to the running order and agenda items with Section 3 of the agenda which is accounts related now being taken after Section 4 to ensure that Pauline is in attendance for the items to be covered. The Chair confirmed that no apologies had been received.

1.2 Declarations of interest

The Director of Finance and Corporate Services declared an interest as a Director in HIE Ventures which features in item 4.4 - Investment portfolio update. The Chair asked for the interest to be noted and

asked that the Director be present when the item is discussed. There were no other 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 6 December 2022

The minute was approved.

1.4 Matters arising from the Risk and Assurance Committee meeting and action note from the meeting of 6 December 2022

The Chair noted the following matters arising:

- End of current EU Structural funds programme –The Director of Business Improvement and Internal Audit (BIIA) confirmed that an Other Funding Board which was previously the EU funding Board has evolved to cover oversight of all other funding including the end of programme activity and lessons learned. It was agreed that updates on this would be included in future agendas for the Risk and Assurance Committee.
- *[Paragraph removed in the interests of the effective conduct of public affairs].*
- *[Paragraph removed in the interests of the effective conduct of public affairs].*

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

1.5 Matters arising from the HIE Board meetings held on 13 December 2022 and 28 February 2023

It was noted that there had been a request from the Board for a report on funding from the Nuclear Decommissioning Authority (NDA) which is on the agenda. The Director of BIIA provided an update on the legal cases on Cairngorm, noting that a series of legal processes are ongoing to try and recover under the original contractor and design team for the funicular and the parent company and personal guarantees put in place in 2014 when HIE sold the shares in Cairngorm Mountain Limited. *[Sentences removed due to confidentiality of communications].*

[Sentences removed due to confidentiality of communications].

The Chair welcomed the positive update and it was agreed that the Director of BIIA would arrange for the Cairngorm sub-group to be reconvened.

2 CURRENT AND EMERGING ISSUES **CÙISEAN LÀITHEIL**

2.1 Space Hub Sutherland

David Oxley joined the meeting.

The Director of Strategic Projects provided a brief update outlining that the project is progressing well with planning conditions being satisfied and power and comms progressing. Agreement is now in place with the NDA for £3.0m of which £0.2m HIE expects to receive in this financial year. The major risk was in getting the NDA agreement in place which has now been done subject to the HIE Chief Executive agreeing and signing the grant letter this week. It was noted that the NDA legal agreement is in their standard format and HIE in accepting this is providing a separate letter to confirm our understanding on interpretation of these conditions.

The overall project risk register continues to fall with all risks reduced to at least amber, *[part of this sentence removed in the interests of the effective conduct of public affairs]. [Sentences removed in the interests of the effective conduct of public affairs].* This is the lowest level of risk presented to the Committee on this project.

The Committee noted with satisfaction that this risk level has been reduced and thanked the team for their work on the project.

David Oxley left the meeting.

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

2.3 Update on ERDF Audit and Claim Progress

David Hamilton joined the meeting. Pauline Gillen Audit Director, Audit Scotland joined the meeting part way through this item.

Following attendance at the last Risk and Assurance Committee meeting, the EU Funding Manager provided a further update on the recent ERDF Audits and issues arising including implications for current and future claims. The progress in the submission and settlement of claims *[part of sentence removed in the interests of the effective conduct of public affairs]* and the risk to ERDF both claimed to date and to be claimed.

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

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

Pauline Gillen 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].

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

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

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

David Hamilton left the meeting.

2.4 Business Transformation – Process Update

Janie Sheridan and Mairi Mackintosh joined the meeting.

The Director of BIIA introduced the item outlining that the update would provide an overview of how the environment that HIE operates in has changed and where HIE has tried to influence this in areas such as subsidy and sanctions and ensuring that changes to systems, processes are undertaken to ensure compliance.

The Head of Business Transformation presented a paper to the Committee which updates on process work that has been delivered or that is currently in progress outlining four key themes covering the 1) The environment such as subsidy regime and sanctions; 2) Changes to payment release thresholds; 3) The digital environment supporting processes, the system that supports colleagues through the standard processes and 4) How to apply the processes and focus on training and development and lessons learned.

The Committee commented that it was good to see the process discipline and functionality and asked if any feedback had been received from clients in relation to MyHIE. The Head of Business Transformation confirmed that the feedback had been really positive once clients are onboarded with some challenges reported around making it easier to be onboarded. There are currently circa 700 clients onboarded and as an organisation HIE now needs to think about a MyHIE first approach. The Director of BIIA also commented that this opens up opportunities for collaboration and optimising partnership benefits.

Committee member Calum Ross provided an update on the very positive feedback received about MyHIE from two or three businesses during the recent Lochaber, Skye and Wester Ross virtual Board engagement event and the benefits of this compared with the previous paper-based systems. The Committee welcomed and noted the positive feedback.

The Chair asked the Subsidy Control Manager if changes in the subsidy environment meant that local markets were going to be an issue. The Manager outlined the complexity in the new environment and noted that changes relating to local market had been identified as a risk area. Staff are now aware through training that the local market argument cannot be made any longer and displacement has to be reviewed more carefully. A short life working group has been set-up to review these issues.

The Committee noted that this was the right time to influence in this area and asked what involvement HIE had in this area. The Manager confirmed that she was a member of the Scottish Subsidy Stakeholders Group which was a group convened by the subsidy control team at Scottish Government and was previously on the three national working groups and was actively involved in these groups.

The Committee welcomed the high level of involvement and the opportunities to influence these groups in what is an important area for HIE.

Janie Sheridan and Mairi Mackintosh left the meeting.

2.5 Framework Document Update

The Director of BIIA presented a paper outlining changes to the Framework Document (previously referred to as the Framework Agreement). The Framework Document is the key governance document between HIE and Scottish Government. The current Framework Agreement is dated February 2016 and HIE and Scottish Government have been liaising on changes to the document for some time. *[Sentences 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].

3 ACCOUNTS RELATED STUTHAN CUNNTASACHAIL

3.1 Audit Scotland 2022/23 Annual Audit Plan and Fee

The Audit Director, Audit Scotland presented to the Committee the Audit Plan for 2022/23 which also included the fee. The Audit Director explained that the plan was in a similar format to the previous year's however there were two key points to highlight. The first key point is that this is year one of the new appointment round which requires a considerable amount of additional work with an entirely

new team and outlined the opportunity to reflect on the organisation and audit and as part of the planning and risk assessment process have finalised the annual audit plan that outlines a number of things including the materiality levels and the significant risks of material misstatement.

The Director then outlined the process and procedures that would be followed when undertaking the audit and the areas of focus where reliance would be placed on external experts. These other areas were identified as in relation to estimations and judgment in the valuation of property, plant and equipment and the valuation of pension assets and liabilities. There will also be reliance on the auditors of the group bodies consolidated into the group accounts.

The Audit Director covered the annual audit fee and the reasons for the increase of circa 30% from £0.144m to £0.188m for this year. Clarification was also provided in relation to wording in the report relating to Audit Scotland reliance on the significant work undertaken by Internal Audit and confirmed that it was expected to continue although not specifically referenced in the plan.

The Chair of the Committee raised significant concerns with the Audit Director in relation to the increase in the audit fee, in particular how it was announced without any consultation and the degree of explanation provided. The issue of reliance on internal audit work was also raised due to it not being explicit in the plan and the Director of BIIA welcomed the clarification from the Audit Director that there was an expectation that it would be relied upon.

The Director of Finance and Corporate Services also raised an issue in relation to the Audit timetable and asked for more detail on the move to a timelier sign-off with the aim of reverting back to pre-covid arrangements. The Audit Director confirmed that over the last couple of years, the intention was to transition back to a pre-covid timescale of signing off in September. For this year there is considerable extra work to be done with a new team and this is an International audit requirement. The aim is to sign off in October this year which incrementally will bring the progress back to pre-covid which the Committee noted.

The Committee raised concerns regarding the increase in the fees at a time when revenue budgets were reducing and under pressure and that there was no control over the level of the fee. The Audit Director provided a rationale for the increase and clarified that as the appointed auditor there was no input to the fee setting or authority to set the level of the fee and the only authority would be to increase the annual fee by up to 10% if the audit was particularly challenging. The annual fee is set by the Audit Quality and Appointments Team who the Director of Finance and Corporate Services has been in contact with and who procure these services every five years.

The Committee noted the explanation but wished noted that they still has concerns around the size of the increase, how it was implemented, and in particular the explanation that came from the Audit Scotland Chief Operating Officer. The Committee is keen to stress that this kind of increase cannot happen in the same way every year and we would expect there to be much fuller discussion on any future changes. It was agreed that the response from the Audit Scotland Chief Operating Officer would be circulated to the Committee by the Director of Finance and Corporate Services.

The Committee also sought a commitment from Audit Scotland to return to the September timetable. The Audit Director could not commit but did confirm that this was the planned direction of travel and it is not unreasonable to expect a return to the September timetable.

3.2 HIE Annual Accounts Planning and Timetable for 2022/23

Andrew Jenkins joined the meeting.

The Head of Financial Services provided an update on the high-level timetable for the annual report and accounts which has been based on the Audit Scotland timetable and lessons learned from previous years to give a detailed timetable which reflects pre-covid timetable to the point of having the group accounts completed. Extra time has been built in to allow HIE internal management to review the completed pack and to give Scottish Government early sight of the accounts. The unaudited group accounts will be shared with the Risk and Assurance Committee at the same time as Audit Scotland to allow the Committee to provide comment in a timely manner, picking up on previous lessons learned.

An update was also provided in relation to accounting changes for the year with one significant change to FRS 16 noted.

The Finance team in HIE look forward to engaging with and working with the new team from Audit Scotland over the next few months to bring them up to speed with HIE. It was noted that the interim audit which is not in the Audit Scotland timetable is scheduled for April which could cause internal challenges as this is traditionally the time when staff take leave around Easter and work is underway on preparing subsidiary accounts. It was confirmed that the subsidiary audits will begin at the start of May and aim to be concluded by the end of May with the exception of Cairngorm Mountain Scotland Limited (CMSL) which will aim to be completed by mid-June and the accounts ready for sign-off by the relevant Boards.

The Committee asked the Director of Finance and Corporate Services if he was content with the dates. He confirmed that there were some concerns around not being able to return to the pre-Covid timetable but understood Audit Scotland's position on this and in that context is content with the dates, noting that some still had to be finalised and confirmed that HIE would internally be working to pre-covid timetables to allow more time to review the accounts.

Andrew Jenkins left the meeting.

3.3 Approach to Expenditure Reviews for 2022/23

The Director of BIIA and the Audit and Assurance Manager presented an update to the Committee outlining the approach being adopted by the BIIA team for undertaking expenditure reviews for 2022/23. The approach considers the profile of expenditure, other assurance activity undertaken in year and areas considered to be of highest risk. The approach taken seeks to ensure that areas of greatest risk are reviewed and also takes account of any in-year changes to delivery, profile of activity, changed risk profile and other assurance activity undertaken in year.

The Committee noted the update and approved the approach.

3.4 Approach to Annual Assurance for 2022/23

The Audit and Assurance Manager presented an update to the Committee outlining that HIE is required to confirm that its internal control environment is operating effectively. This assurance is provided to the Scottish Government sponsor team and is also included in the considerations for the Governance Statement which is included in the annual accounts.

The approach for 2022/23 has been designed to ensure it provides appropriate assurance on the internal control environment and is broadly similar to previous years with the only addition in relation to This is Remarkable (TIR) where specific assurance is being sought and each Business Unit is being asked to specifically identify any internal control issues in relation to major projects in their area of responsibility.

The Committee asked if there was capacity to deal with any additional issues that may arise. The Director of BIIA confirmed that there was contingency built into the audit plan to deal with emerging

issues and the approach places accountability with management. The Director also confirmed that lessons learned were built into the assurance plan.

The Committee welcomed the reassurance provided by the quality of the reports provided.

4 PLANNED ACTIVITY **GNÌOMHACHDAN PLANAICHTÉ**

4.1 Assurance Plan Progress Update to end January 2023

The Audit and Assurance Manager provided an update on progress made against the agreed assurance plan for 2022/23 detailing activity in the period November 2022 to January 2023. An annual risk-based plan was agreed by Risk and Assurance Committee at the September meeting and good progress has been made against the plan, using both internal resources and through outsourced arrangements.

Some adjustments to the plan are proposed which require the approval of the Committee, these are as follows: 1) Key controls for new finance system, including consideration of payroll controls. Implementation of the system has been delayed, it is therefore proposed to reschedule this to the new financial year; 2) Review and update of delegated authorities. This is to be timetabled once the final Framework Document has been agreed and will ultimately be approved by the Board; 3) Economic Impact Assessments. This has moved from full assurance review to the other assurance category due to part of the organisational process change activity looking at proportionality so it sits better as part of this; and 4) Health and safety policy implementation. This is considered low risk and has already been rolled forward one year. This will now be commenced during the first quarter of the new financial year.

The Director of BIIA highlighted transparency around any irregularity reviews / fraud concerns and as highlighted at the Board meeting, *[part of sentence removed in the interests of the effective conduct of public affairs]*. *[Sentences removed in the interests of the effective conduct of public affairs]*.

The Committee were curious about the delay in the finance systems and controls which has delayed the audit and requested an update. The Director of Finance and Corporate Systems confirmed that a decision had been taken to take a step back and stocktake and widen the brief to involve other teams and to take the opportunity to review processes. *[Sentences removed in the interests of the effective conduct of public affairs]*.

The Committee noted the progress made and approved the proposed adjustments to the plan noting in particular that in relation to the health and safety policy implementation, this needs to be undertaken and not rolled forward again.

4.2 Audit recommendations follow-up - reports issued 2020/21

The Chair noted that 93% of all high rated recommendations were confirmed as completed which was impressive and asked for an update on what remained outstanding. The Audit and Assurance Manager updated the Committee that two were marked as not completed due to no response having been received in relation to one and the other required follow-up with regards to the response provided. Based on implementation on the previous report to the Committee, there has been a noted improvement in recommendations that have been completed.

The Committee welcomed the report showing that the implementation rate was very high, with the Audit and Assurance Manager confirming that a further update would be provided at the next meeting.

4.3 Risk Register, February 2023

The Director of Business Improvement and Internal Audit informed the Committee that this was the report that was provided to the HIE Board meeting in February and there were two areas to be highlighted. The register has been updated to reflect changes to key projects, one being in relation to Cairngorm due to the reinstatement of the funicular railway and the other in relation to the announcement of the Green Freeports and the need to capitalise on the opportunities this presents.

As requested by the Board, work is ongoing to articulate a risk in relation to Tourism sector businesses and some of the pressures that a combination of new legislative requirements are bringing. This is being discussed with Tourism colleagues and will appear on the next register to the Board.

The Director also highlighted from a process perspective, some of the work that had been undertaken around the risk register to ensure that the process, operating and cultural environment is pitched to ensure that the right things are emerging and the right actions are taken. There have been a number of lessons learned exercises and a good process in place to ensure conversations at the right levels with colleagues such as the Investment Committee and Senior Managers forum with Heads of Business Growth and Strengthening Communities. A risk webinar has been held and over sixty colleagues have participated in Financial due diligence and treasury business case training.

The Committee asked if the Leadership Team review the risk register on a regular basis. The Director confirmed that this takes place at least every six weeks or as and when required as risks are identified with the Chief Executive commenting that this is a live document which is reviewed on a regular basis.

The Committee also asked if there was any recognition of risk in relation to subsidy and the Green Freeport. The Director confirmed that it was recognised but was also a bit of an unknown that needed to be fully understood. HIE has good knowledge and experience of this following a complaint linked to this under the previous regime and have a good understanding of the issues.

The Committee were assured by the level and frequency of review that takes place and is being kept up to date.

4.4 Investment Portfolio Update

Lewis MacDonald joined the meeting.

The Director of BIA outlined that the update provides the Committee with oversight of the overarching portfolio HIE's group entities, the equity portfolio and the loan portfolio, and is something that requires specific attention. The wider context is in relation to HIE's budget and is looking to optimise other tools at our availability such as loans and equity. From this is a risk but also an opportunity to achieve a return on successful investments.

The Head of Enterprise Finance thanked the Director for the introduction and proceeded to provide the Committee with an overview and background to the holdings and loans outstanding. Outlining that this area may become more active moving forward with a view to increasing equity and loan which would be a strategic decision.

The Head of Enterprise highlighted an interesting external funding development is that the British Business Bank as part of the Nations and Regions Investment Funds had the investment fund for Scotland launch. The fund has £20m allocated to smaller loans (£25k to £100k), £40m to conventional debt (£100k to £2m) and £50m to equity, with a further £40m held in reserve for later drawdown. The

fund managers will be set minimum geographic investment targets, which for the HE region are: Smaller Loans (£1.2m), Debt (£2.5m) and Equity (£3.1m from initial allocation).

The Committee noted the paper and highlighted the strategy issues coming from the paper and questions which are for a future response as follows: 1) There needs to be a strategy developed for the shareholding; 2) There needs to be a strategy for loans.

The Chief Executive confirmed that the increased use of loans and equity it is something that HIE is looking at but this would also require additional process and systems to be put in place to manage.

Lewis MacDonald left the meeting.

4.5 Write Offs

Andrew Jenkins joined the meeting.

The Director of Finance and Corporate Services confirmed to the Committee that the paper outlines decisions and actions already taken by HIE with regards to write offs approved by Leadership Team within their delegated levels of authority. The Head of Financial Services reported that there was nothing in particular that needed to be highlighted but referenced Ballet West which was the largest in the report and related to the recovery of grant funding but due to the company going into administration no recovery is possible. In terms of the other debts, there is an approximate charge of £0.035m.

The Committee noted the paper and the confirmation that lessons had been learned.

Andrew Jenkins left the meeting.

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

4.7 Any other business

There was no other business however the Committee thanked the outgoing Chair for the way in which he had led the Committee and for his knowledge and experience of audit issues and the area.

The Chief Executive added his thanks and the thanks of the Executive team for the work undertaken as the Chair of the Committee.

The Chair concluded by thanking the BIIA team for supporting the meetings, the Audit Scotland team and the Chief Executive for attending all of the meetings.

4.8 Date of next meeting

- The next meeting of the Risk and Assurance Committee will be on 6 June 2023 at 9:00am.

Adrian Kitson
Head of Executive Office
21 March 2023