

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

MINUTE OF THE MEETING HELD ON 6 JUNE 2023 AT 0900 AT AN LÒCHRAN, INVERNESS CAMPUS, AND BY TELECONFERENCE

PRESENT (ONLINE): Angus Campbell (*Chair*)
Belinda Oldfield
Calum Ross
Keith Nicholson

IN ATTENDANCE (AN LÒCHRAN):

Stuart Black	Chief Executive
Nick Kenton	Director of Finance and Corporate Services
Louise Macmillan	Audit and Assurance Manager
Andrew Jenkins	Head of Financial Services, item 3.2
Janie Sheridan	Head of Business Transformation, item 4.5

IN ATTENDANCE (ONLINE):

Sandra Dunbar	Director of Business Improvement and Internal Audit (BIIA)
Pauline Gillen	Audit Director, Audit Scotland
Sobhan Afzal	Audit Manager, Audit Scotland
Andrew Carton	Team Leader of Sponsorship, Scottish Government
Adrian Kitson	Head of Executive Office
David Hamilton	EU Funding Manager, item 2.1
Tim Hurst	WES Managing Director, item 2.2
Craig Lawrence	Customer Services Improvement Manager, item 4.8

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting and in particular Sobhan Afzal from Audit Scotland who was joining the meeting for the first time. The Chair confirmed that no apologies had been received.

1.2 Declarations of interest

There were no interests declared. The Chair noted that Committee member Keith Nicholson would need to leave the meeting between 10:00am and 11:00am due to a pre-existing commitment.

1.3 To approve minute of the Risk and Assurance Committee meeting held on 21 March 2023

The minute was approved with one minor typographical error to be corrected in item 1.4 from another funding Board to an other funding Board. To clarify, the name of the Board is "Other funding Board".

1.4 Matters arising from the Risk and Assurance Committee meeting and action note from the meeting of 21 March 2023

The Chair noted the following matters arising:

- Cairngorm sub-group, it was agreed that this would be reconvened and this has now happened with a meeting to be held today.
- Framework agreement will be covered under item 2.3.
- The Audit plan and fee letter was circulated to members via Objective Connect.

1.5 Matters arising from the HIE Board meeting held on 25 April 2023

The Director of Business Improvement and Internal Audit provided an update to the Committee on the Cairngorm legal cases noting that members had previously received two updates, one at the last Board meeting and one at the Sub-Group prior to the last Board meeting. There are four different legal cases all proceeding in parallel and a mediation date has been secured for 26 June 2023 which will be facilitated by an experienced mediator to include all four defenders and HIE and Cairngorm Mountain Scotland Limited (CMSL) who were brought in as a third party by one of the defenders. This provides an opportunity to arrive at a mediated settlement however if this fails, there is a scheduled Court period of eight weeks that starts at the end of August. There are procedures in place to prepare all of the witness statements for that date if the mediation is unsuccessful however it is hoped that an outcome can be reached that is acceptable to all parties on 26 June.

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 Wave Energy Scotland (WES) Update

Tim Hurst joined the meeting.

The Managing Director (MD) of Wave Energy Scotland (WES) provided an update on the progress of WES to the Committee. This covered an update on the WES Technology Programme, Europwave, SEETIP Ocean, Future Programmes and WES Strategy Development.

The MD provided a brief update on changes to governance noting that updates had been made to the structure of the WES Board. *[Sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].*

In terms of next steps, over the coming months, WES will continue to work with the Scottish Government and the WES Board to develop a strategy that will support the Scottish Government's objectives for Net Zero which will be set out in the Energy Strategy due to be published at the end of 2023.

The Committee was pleased to see the progress and success of WES. *[Sentences removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].*

The Committee asked what claim WES has on Intellectual Property (IP). The MD confirmed that the current arrangement which is the pre-commercial procurement (PCP) requirement is that contractors must licence this to third parties at commercial rates. WES has a perpetual licence to utilise the IP and WES has first refusal to purchase IP if it is sold or an opportunity to reclaim the IP if it is not actively developed for 4 years. Key is the knowhow, the people and the capacity to develop the devices which is what WES do not want to lose.

The Committee thanked the Managing Director for the update.

Tim Hurst left the meeting.

2.3 Update on Framework Document

The Director of Business Improvement and Internal Audit provided a further update to the Committee on the progress made with Scottish Government (SG) on updating the Framework Document. From the last paper presented there were 4 areas agreed for further discussion with SG which has since taken place.

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

The proposal is to take a paper to the Board to get agreement that we can conclude the Framework Agreement on the basis of the current version with any final changes agreed with the Chief Executive.

The Committee noted the amendments made and approved the approach to be taken.

2.4 Covid Inquiry

The Director of BIIA provided an update to the Committee to raise awareness on the HIE engagement with the Scottish COVID-19 Inquiry. As part of the Scottish COVID-19 Inquiry HIE has received an initial request for information which falls under Rule 8 of the Inquiries (Scotland) Rules 2007. HIE is required to respond within 8 weeks to the request, with the request being informed by early engagement between the Inquiry Team and HIE.

HIE leads were identified for each question and we are aiming to submit a response during the next week. HIE's response will be substantive and will ensure there is a full account of the organisational response. It includes how we pivoted our resources, people and governance to address the needs of the organisation, our region and clients. It also references how we adjusted our approach to risk, ensuring we remained risk aware but able to respond in an agile manner to urgent need and that risk was considered on a fund by fund basis.

It is expected that further follow up requests for information and engagement will follow which will have resource implications.

It was proposed that the response to the inquiry would be provided to Committee once issued. The Committee agreed the approach noting that there was a good story to be told in terms of HIE's quick reaction and regional leadership which may be relevant at other times in the future.

3.1 Audit Scotland Progress Update

The Audit Director, Audit Scotland provided a verbal update on progress being made with the audit since the last meeting. The team have substantially completed the interim work and this is going through the review process with no issues to report to the Committee. Substantive testing has also been undertaken in advance of final accounts which is going well. Work is progressing in relation to the two additional areas of interest relating to Cyber Security and Climate Change and is also going through the review process, findings from this will be reported in the annual audit report at the conclusion of this year's financial statements audit.

As the team move toward beginning the financial statements audit, dates have been planned for work to take place on site in Inverness which will be two to three days a week spread over a four to five week period. This has been discussed and agreed with the HIE Finance team to ensure staff availability, best use of time and relationship building.

The Committee noted that they were content with the update.

3.2 HIE Annual Accounts Timetable Update

Andrew Jenkins joined the meeting.

The Head of Financial Services provided an update on the annual accounts timetable confirming that dates had now been confirmed with Audit Scotland and Scottish Government and HIE is currently on track with the timetable and should have the draft consolidation completed by the end of the week. This is the next target date to achieve and the unaudited accounts should be ready for Audit Scotland at the beginning of August.

Advice has been taken in relation to accounting changes on IFRS 16 with the final information now through and reflected in the accounts. In relation to the Interim Audit, no major issues have been raised. In relation to the subsidiary audits, the consolidation packs are all in and no issues have been raised with these.

The Chair noted that all was going well and sought confirmation from the Audit Director that the timescales would remain the same, which was confirmed. The Committee noted the update.

The Director of Finance and Corporate Services updated the Committee that an invitation had been received by the Chief Executive and the Director to provide evidence to the Economy and Fair Work Committee. The timing of this had not been confirmed, but was likely to be in September, at which point the accounts will not be finalised.

Andrew Jenkins left the meeting.

3.3 BIIA Report – Certificates of Assurance for 2022/23

Keith Nicholson left the meeting due to a prior engagement and rejoined during item 4.6.

The Director of BIIA and the Audit and Assurance Manager presented an update to the Committee on the planned approach previously agreed by the Committee which included completion of internal control checklists and/or stewardship reports by business units, for group companies, for internal governance groups and for key project activity, together with consideration of other assurance in year.

The key areas proposed for highlighting to the Sponsor Team in the interim return for 2022/23 are as follows. 1) This is Remarkable, a HIE associated entity is currently in Liquidation; 2) Uncertainty of financial outcome for Cairngorm Mountain (Scotland) Ltd may impact on HIE's future financial outturn and on an ongoing basis; *[Part of sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity]* and 23/24) General budget constraints may impact on HIE's ability to respond to regional opportunities and challenges.

The Audit and Assurance Manager also drew the Committee's attention to a range of papers that had been provided in the Resources area of the meeting pack including the assurance returns from the Health and Safety Committee and the Information Security, Fraud and Governance Group (ISFGG), a draft internal control checklist and lessons learned.

The Committee asked about the "hockey stick" effect (i.e. back-loading of spend into the tail-end of the financial year) and the high level of carry forward mentioned in the report and if this was similar to other years. The Audit and Assurance Manager confirmed that this was mentioned by one specific Business Unit but outlined that this had been less pronounced this year. The Director of Finance and Corporate Services confirmed that this was feedback from the Finance team based in Benbecula who had identified that there was still a hockey stick effect but less so this year with the issue spread over the last four or five weeks rather than the last 10 days which made things a bit smoother but remains an issue to be addressed.

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

The Committee noted the update.

3.4 Draft Governance Statement 2022/23

The Director of BIIA Audit outlined that a draft version of the Governance Statement is routinely taken to the Committee to take input prior to it being finalised. As a final version, it forms an important part of the Annual Report and Accounts. It provides a summary of the governance and risks and reflects some of the best value context within it. It is draft and will require further updating and confirmation from Audit Scotland prior to conclusion. A final version will be provided to a future meeting of the Committee.

The Committee noted the update and commented that the report was in a good state of readiness.

4 PLANNED ACTIVITY GNÌOMHACHDAN PLANAICHTÈ

4.1 RAC Annual Report on Activity 2022/23

The Chair outlined that this was a comprehensive report outlining the work of the Committee over the course of the year recognising that much of the work was led by officers and the previous Chair and sought agreement that this was an accurate report of the work undertaken and the Committee. Members agreed.

The Director of BIIA confirmed that this report would be taken to the Board and asked the members to confirm that they were content that the Committee Terms of Reference had been reviewed during the year and remain fit for purpose with no changes proposed. The Committee agreed.

4.2 Director of BIIA Annual Report for 2022/23

The Director of BIIA outlined that on an annual basis there is a requirement to summarise in an annual report, the activity of the Business Improvement directorate in year and provide an opinion on the overall system of internal control. The conclusion from the Director of BIIA is that the systems of internal control in financial year 2022/23 were generally satisfactory and is based on all assurance activity undertaken in year through the integrated assurance approach.

Key areas to highlight include 1) Areas identified where there was a need for continued focus on compliance and good practice; 2) The increased focus on the capture and sharing of lessons learned across the organisation; 3) A number of key risks and opportunities; 4) Specific activity undertaken by the Directorate in year and key areas being carried forward into 2023/24 such as leading the organisation through significant changes in subsidy environment, the effective sourcing and use of other funding, the environment for project appraisal, project delivery and benefits realisation and engagement in legacy legal issues.

The Committee noted and welcomed the comprehensive report.

4.2.1 Assurance Plan Progress to the end of March 2023

The Director of BIIA outlined progress with the plan which is provided at every meeting outlining that this report resents a summary of the final position against the agreed assurance plan for 2022/23 end details of specific activity in the period February to March 2023.

The Audit and Assurance Manager highlighted a number of areas in the report where it was agreed to carry items forward for a variety of reasons. The urgent ones have been timetabled for the first quarter of the year and a start has been made on these with reports to follow. There is also a separate paper provided in the resources section of the meeting pack that summarises reports finalised in this period and copies of these will have been provided separately.

The Committee noted the report.

4.3 Plans for 2023/24

4.3.1 Risk and Assurance Committee Plan 2023/24

The Director of BIIA noted that the immediate start point for the plan is that there are certain areas that are routine and timetabled such as the work around the annual accounts. Assurance was given that the areas identified for follow up identified in the RAC report for the last year have been carried forward into the plan. One area to focus on is the Committee's own development activity. This helps ensure that the Committee has sufficient knowledge on HIE specific areas to allow the discharge of their responsibilities. This would include topics such as the subsidy regime and the Committee were asked to consider any areas for development for this year. It was also noted that following the Committee's good practice, work has been undertaken with the Chair of HIE to undertake a review of the HIE Board effectiveness and there will be a session on this before the start of the next Board meeting in June.

The Chair noted that in terms of the Committee's own development there were proposals to review their own effectiveness and to look at the subsidy environment with one other area identified in relation to the Green agenda. The Chief Executive confirmed that Keith Masson in the HIE Energy Team has developed a training package around Net Zero for staff which will be rolled-out over the coming year and which might also be suitable for Committee members and the whole Board. The Committee agreed that this would be useful and agreed that this should reviewed to see how best to fit with the timetable for the year.

The Committee noted the Plan for 2023/24.

4.3.2 HIE Assurance Plan for 2023/24

The Director of BIIA outlined that an annual assurance plan is prepared which aims to support HIE management in the delivery of HIE priorities and achievement of regional outcomes, and to provide the Accountable Officer with assurance on the effectiveness of the internal control environment. In preparing the 2023/24 HIE Assurance Plan we have sought to understand the current operating environment and have considered a range of factors including changes to strategic, economic, fiscal and organisational delivery environments, emerging issues, current corporate risks, lessons learned from activity in 2023/24 and the regulatory environment. The need to allow flexibility has been recognised to allow the ability to respond to new or unforeseen requirements and to ensure deliverability of the plan with the resources available. Not all activity will be a formal internal audit review, recognising the integrated assurance approach which has been adopted by HIE.

There is a new Audit Scotland Team and it is important to take the time to develop that relationship to minimise any gaps but optimise the internal audit assurance activity and external audit assurance activity. *[Sentence removed in the interests of the effective conduct of public affairs].*

The Chair noted the use of external help and asked if it was readily available. The Director outlined the joint partner arrangements in relation to IS which provides resilience and expertise, is good value for money and can be drawn down for HIE specific activity. Separate to that there is a separate bespoke framework arrangement.

The Committee noted the plan.

4.3.3 Information Systems Audit Plan 2023/24

The Director of BIIA explained that the IS audit plan as prepared by EY on behalf of the EIS Partnership was agreed at the meeting of the Partnership Board in May 2023. This reflects on previous work undertaken for the Partnership, current identified risks, and its knowledge of the wider environment.

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

The Director of Finance and Corporate Services outlined the assurance map where a lot of work has been undertaken in terms of the governance arrangements and the support from EIS noting that HIE pay 9% of the audit costs for 100% of the coverage, which is very good value.

The Director of Finance and Corporate Services also outlined that there are several HIE systems which were out with the EIS support and EY were engaged directly last year to review non EIS systems therefore the action plan for HIE goes beyond those covered by EIS.

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

The Chief Executive drew two points to the Committee's attention. The first being that there is a Value For Money exercise underway in terms of the efficiency of the service delivery. The is something that he has been asking for some time as HIE comes under increasing budget pressure and it's important that a key partner is looking to support HIE in the efficiency journey. *[Sentences removed in the interests of the effective conduct of public affairs].*

4.4 Corporate Risk Register

Janie Sheridan joined the meeting.

The Director of BIIA outlined that this risk register was the one presented to the last Board meeting and would be happy to discuss any matters arising. The Director updated the Committee that a wholesale refresh of the corporate risk register was underway and a significantly updated version would be presented at the Board meeting in June and this will come back to the Committee.

A review of the risk appetite statements is also being undertaken to make sure that they remain fit for purpose in the context within which HIE currently operates. This will be added to the agenda for the August meeting alongside the accounts and this will also go to the Board.

Much has been done in terms of training and webinars for staff and supporting colleagues particularly for the higher risk projects around the Scottish Government Risk Potential Assessment and the use of Gateway reviews which demonstrates an activeness to risk management arrangements.

The Chair confirmed that it is a vital part of the process to continually review and agreed to review the risk appetite statements at the next meeting of the Committee.

As an observation, the Committee noted that it was not often to see five new risks being added in terms of the overall risk environment. The Director confirmed that this followed a review of the risks by the Leadership Team to identify the key risks. The current refresh will further aim to reduce the overall number of risks and to separate items which are ongoing issues and challenges rather than corporate risks. It is also important to acknowledge that HIE's remit to address market failure means that risk taking is inherent to HIE's delivery, therefore HIE should also be prepared to accept that some of the projects we support will not be as successful as hoped.

The Committee also asked if there was a gap in relation to tourism and hospitality risks relating to bounce back loan defaults and the impact of ferries. The Chief Executive noted that this was being refreshed and issues such as transport challenges would be prominent in the refreshed register.

The Committee welcomed the update noting that the refreshed register would be presented to the June Board meeting.

4.5 Best Value and Business Transformation Plan

The Head of Business Transformation presented a paper to the Committee with a proposed Best Value plan for 2023/24 with key areas of priority and activities. The delivery plan builds on previous papers presented to the HIE Leadership Team, HIE Board and Committee has been developed in alignment to HIE's new Strategy and the Best Value characteristics. A range of qualitative and quantitative metrics have been created and where possible a baseline has been created against which progress can be measured. The next steps will be to align efforts across the organisation and embed in part of our routine performance measurement reporting.

There will also be a review of governance groups who are responsible for reviewing metrics to ensure that these are right and proportionate.

The Committee noted the coverage across the organisation and asked if there was buy-in and asked if this could be drawn together into a one page summary for the Board taking the top key performance indicators such as revenue, resource and service quality. The Head of Business Transformation confirmed that all Directors were involved in the development of the plan. Much of this activity is already being captured and this is about consolidating this with the wider organisational performance

reporting. The Chief Executive agreed that a summary of information would be developed and included in regular reports to the Board and the Committee.

Janie Sheridan left the meeting.

4.6 BIIA Report – Efficiency Review

Keith Nicholson rejoined the meeting during this item.

The Director of BIIA provided the Committee with an oversight of the findings of a review undertaken of expenditure in the last two financial years (1 April 2021 to 31 March 2023), which are being used to inform HIE's Best Value and efficiency and effectiveness activity as referenced in the last agenda item.

The BIIA Directorate undertook a high level review of expenditure to assist management in their discussions in relation to Best Value, efficiency and effectiveness opportunities. The review identified the following: 1) An opportunity for increased transparency and accountability which would help support organisational efficiency and effectiveness improvements; 2) Inconsistency in process and governance depending on budget route; 3) Opportunities to use data to assist in focusing business transformation and best value activity; and 4) Existing governance arrangements were in place for considering efficiency and effectiveness. These should be reviewed and used to embed any changes and each should ensure regular reporting back to management, including Leadership Team and Risk and Assurance Committee

The Committee welcomed the report noting the high property expenditure in the review. The Director of BIIA confirmed that the property expenditure was split between contractual delivery of infrastructure and the support costs to deliver this. The Chief Executive confirmed that a deliberate decision had been taken to increase spend on property infrastructure because due to the economy, demand from the private sector was going to be difficult and this has been evidenced through reduced demand for grant projects. The Director of Finance and Corporate Services confirmed that the property expenditure figure included expenditure relating to the Cairngorm funicular.

4.7 BIIA Report – National Fraud Initiative (NFI) Data Matches

The Audit and Assurance Manager referenced a previous paper to the Committee outlining how HIE would participate in the National Fraud Initiative (NFI) exercise which is a bi-annual exercise led by the Cabinet Office and Audit Scotland. This allows HIE to get a 100% match of our payroll and creditor data by providing potential matches within HIE or all of the participants in the exercise from across the UK. A review of the matches is then undertaken using a risk based approach. HIE undertook a review of 39% of all matches which included all considered high risk from which no instances of fraud were highlighted with one uncorrected error highlighted which has since been resolved. This provides a good level of assurance and is the type of exercise that is really beneficial to take part in as HIE does not have the internal capacity to undertake such a clear matching exercise.

The Director of BIIA highlighted that as an organisation a high level of awareness raising has been undertaken throughout the year in relation to identifying fraud via intranet posts and a workshop is being delivered at the end of the month. Maintaining awareness of when fraud may be attempted is the biggest protection.

The Committee noted the update.

4.8 HIE Information Requests and Complaints Feedback Report 2022/23

The Customer Service Manager presented an update to the Risk and Assurance Committee covering the following areas: 1) An overview of customer feedback, incorporating both compliments and

complaints for both Highlands and Islands Enterprise (HIE) and Wave Energy Scotland (WES) and Cairngorm Mountain (Scotland) LTD; 2) An overview of requests received under the Freedom of Information (Scotland) Act and Environmental Information Regulations for both HIE and WES, 3) A high-level overview of next steps in terms of delivering the wider Customer Service agenda for the 12 months from 1 April 2022 to 31 March 2023.

In summary 18 HIE complaints were dealt with through frontline resolution during 2022/23 and 6 investigations were undertaken as a stage 2 complaint. There was 1 complaint review undertaken by the Scottish Public Services Ombudsman (SPSO) relating to HIE during the year and this was not taken forward to investigation stage.

Freedom of Information requests have increased year on year and have resulted in an increase of reviews and appeals. During 2022/23 HIE received and dealt with 79 FOI's compared to 55 for the whole of 2021/22. There were no FOI's received by WES during this period. Of the FOI requests requiring a response, 91% were responded to within the statutory timescale of 20 working days. Our average response time was 12 working days compared to 14 working days for the whole of 2021/22. There have also been 6 appeals to the Commissioner all from the same requestor in relation to the same subject matter.

The Committee noted the increase in activity in relation to FOI requests and the increased workload involved for responding to these requests and that this is a trend across Scotland noting that some organisations have an open data policy.

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

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

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

4.9 Any other business

There was no other Business.

4.10 Date of next meeting

The next meeting of the Risk and Assurance Committee will be on 17 August 2023 at which the risk appetite discussion will be included.

The Committee thanked the HIE staff for the quality of the papers provided and presented to the Committee.

Adrian Kitson
Head of Executive Office
6 June 2023