

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS
SGRÙDAIDH

MINUTE OF THE HIE RISK AND ASSURANCE COMMITTEE MEETING
TUESDAY 02 JUNE 2020
THIS MEETING TOOK PLACE BY SKYPE AUDIO CONFERENCE

PRESENT: Donald MacRae (Chair)
Angus Campbell
Belinda Oldfield

IN ATTENDANCE:

Charlotte Wright	Chief Executive
Carroll Buxton	Deputy Chief Executive
Sandra Dunbar	Director of Business Improvement and Internal
Audit Nick Kenton	Director of Finance and Corporate Services
Allison Rice	Team Leader, Sponsorship and Better Regulation Team, Scottish Government
Gordon Smail	Audit Director, Performance Audit and Best Value, Audit Scotland
Maggie Bruce	Senior Audit Manager, Audit Scotland
Adrian Kitson	Head of Executive Support
Louise MacMillan Manager	Compliance and Risk
Elaine Hanton	Interim Project Lead, Cairngorm, Item 2.2a
David Oxley	Director of Business Growth, Item 2.3b
David Howie	Programme Head, Space Hub Sutherland, Item
2.3b Andrew Jenkins	Head of Financial Services, Section 3
Fiona Sarjeant	European Compliance Manager, Item
4.1b Marie Mackintosh	State Aid Manager, Item 4.1c
Chris Knight	EIS Information Assurance Manager, Item 4.4

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting. No apologies were received.

1.2 Declarations of interest

Angus Campbell declared an interest in relation to Items 2.1c Covid-19 Process for Funds - declaring an interest as the Director of a company who had applied for funding. It was agreed that Angus could remain for the discussion and Item 2.3b Space Hub Sutherland Update - as the Deputy Chair of Scottish Natural Heritage. It was agreed that this was not a financial conflict and Angus should remain for the discussion.

1.3 Minute of Risk and Assurance Committee meeting held on 3 March 2020

The minutes were approved.

1.4 Matters arising from Risk and Assurance Committee meeting held on 3 March 2020

There were no matters arising from the meeting of 3 March that were not covered by the agenda items.

1.5 Matters arising from the HIE Board meetings held on 28 April 2020

There were no matters arising from the HIE Board meetings held on 28 April 2020. The Director of Business Improvement and Internal Audit provided a brief update on the Nigg court case, highlighting that an appeal hearing was taking place virtually on 4 and 5 June. *[Sentence removed in the interests of the effective conduct of public affairs.]*

2 CURRENT AND EMERGING ISSUES **CÙISEAN LÀITHEIL**

2.1 Governance and Covid-19

Matters 2.1a Governance Paper

2.1 b Covid-19 Risk

Register 2.1c Process for

Funds

The Director of Business Improvement and Internal Audit provided a brief update on all three papers together, outlining that the papers are a follow-on from the previous update provided to the Committee in March. It was noted that the changes to intervention approach, risk appetite and use of investment committee had much wider relevance than addressing Covid related matters and were linked to the wider Business Improvement objectives discussed previously. In dealing with Covid matters HIE has quickly established a new working environment and identified areas where internal controls and governance arrangements (including risk) need to adapt to support HIE address the unprecedented operating and strategic challenges. The key points to note are 1) the changes required in response to the Covid risk; 2) The Investment Committee and 3) The risk environment / appetite.

The Committee noted the update, acknowledging the speed at which HIE had responded and recognising the increased risk which exists. It was noted that the Investment Committee was seen as a useful mechanism to implement some of the required decisions quickly. The Committee did not result in any changes to the Leadership Team delegated authorities and that there will be a review internally in 6 months and this will be reported back to the committee.

2.2 Cairngorm Mountain

2.2 a Governance and Business Case

Update 2.2b Audit Scotland – Section 23

Update *Elaine Hanton joined the meeting.*

All items were covered together with the Interim Project Lead, Cairngorm providing a short update. Confirming that the options appraisal for the operating company continues with contractors, RSM, supporting HIE to take this work forward. It is currently anticipated that the Full Business Case will be presented to the HIE Board at a special meeting in July. The CNPA planning committee met on 22 May, and approved the proposed strengthening works, subject to certain conditions in relation to environmental and wildlife monitoring and protection, and health and safety. The conditions had all been identified and addressed as part of the application and we will now work with CNPA to purify the

conditions.

[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 CMSL Board appointments are due to end at the end of June 2020. It is proposed to extend these. This will be agreed by the HIE Chief Executive and Chair and homologated by the Board.

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

Significant ongoing activity has continued on the various legal cases – legacy CML parent company and personal guarantees, and original contractor/design team claims.

With regards to the preparation of the year end accounts, it will be determined on which basis to prepare the accounts. This will be reviewed in July and the practicalities discussed with the CMSL Board. Audit Scotland confirmed that this was a pragmatic approach and will discuss with HIE and review at the time.

The Audit Director, Performance Audit and Best Value confirmed that the S23 review was nearly complete and had been assured by the final comments from HIE and SG. It is a balanced report with lessons learned for HIE and SG. Audit Scotland are sensitive to the legal issues and a form of words has been agreed. The report will be published on 18 June 2020.

The Committee thanked HIE staff and Audit Scotland for the work carried out and for the care taken around the legal issues. A copy of the final report will be circulated to the Committee and the Board when it becomes available.

Elaine Hanton left the meeting.

2.3 Space

2.3a Space Programme Update

Martin Johnson joined the meeting.

The Interim Director of Strategy and Regional Economy presented a paper providing a short update on space-related activities across the HIE Region following on from a paper submitted to HIE Board in April 2020.

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

The Interim Chief Executive confirmed that the project is National Infrastructure and HIE is working to keep SG and UKSA engaged. An internal review is underway and the UKSA market appraisal will be useful for this and will help to inform decisions. The critical path will be presented to the next sub group meeting.

The Committee noted the update.

Martin Johnson left the meeting.

2.3 b Space Hub Sutherland Update

David Oxley and David Howie joined the meeting.

The Director of Business Growth presented a paper to update the Committee on the status of the Space Hub Sutherland project with regards to project progress, key risks and issues. The impact of COVID-19

has resulted in main schedule delays of around 3 to 6 months and that the full impact is not currently known. The Highland Council North planning committee has been delayed but HIE is seeking to have the application presented and considered by the Committee at the end of June. SNH is to lift the holding objection and the planning officer is making a recommendation for approval. It was noted that the Scottish Government could call in the decision.

The Scottish Land Court is currently not hearing cases and no timings have been issued for re-instatement of hearings. The project team continues to work on the submission which will be lodged once planning consent is received.

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

It is expected that the project will be presented to the Board for a decision, possibly in August depending on Planning and business case due diligence.

The Committee asked if there would be an update provided to the June Board meeting. The Director confirmed that there would be a programme review update to the June Board meeting. The scope and outcome re the critical path will be presented to the next sub group meeting.

David Oxley and David Howie left the meeting.

2.4 VAT Update

The Director of Finance and Corporate Services updated the Risk and Assurance Committee on the progress of the HMRC VAT compliance review and the next steps. For over two years HIE has been working on a revised partial exemption (PESM) that would be applied retrospectively to 2014 and form the basis of a revised method looking forward.

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

The Committee noted that it was good to see progress and hopefully closure. The importance of the meeting with HMRC to resolve this issue was recognised as was the need to meet again if a resolution can't be reached. It was further noted that for the annual accounts HIE would not want to go beyond the end of June but there would still be time to include in the last year if it does go beyond.

The Audit Director, Performance Audit and Best Value, Audit Scotland confirmed that the audit position regarding accrual or prepayment for the annual accounts will depend on evidence available at the time.

2.5 Pension Guarantees Update

The Director of Finance and Corporate Services presented a paper to update the Committee on the issue of pension guarantees and to outline a way forward.

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

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

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

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3 ACCOUNTS RELATED **STUTHAN CUNNTASACHAIL**

Andrew Jenkins joined the meeting for the whole of section 3.

3.1 Annual Accounts Update, including Timetable

The Head of Financial Services provided an update to the Committee outlining the intention to follow a similar timetable to the 2018 and 2019 Annual Accounts. Despite the challenges presented by homeworking, HIE is seeking to keep to the timetable. It was noted that there had been some slippage on the timetable of around 2-3 days for having draft accounts available but this will be brought up to date and HIE is expecting to deliver the accounts on 12 June.

There are questions in relation to audit evidence and the availability of documentation with original signatures if required for audit purposes and if this could impact the audit timetable. The Audit Director, Performance Audit and Best Value, Audit Scotland confirmed that there are technical issues around this, Audit Scotland are picking up learning from other audits and will apply that learning to HIE. They will try to keep to the timetable but things are taking longer so there are no guarantees that this will be possible.

The Senior Audit Manager, Audit Scotland also confirmed that this this will be challenging to deliver. This area is taking longer to deliver and realistically the timetable is likely to be pushed back to the end of September which is a full month later. The aim is to start the audit on 15 June and complete by the end of August with the accounts laid before Parliament by the end of September. It is difficult to know if this will work due to a variety of issues such as childcare caused by the Covid-19 situation.

The Director of Finance and Corporate services outlined that due to the circumstances described by Audit Scotland, the Economy, Energy and Fair Work Committee may not be able to scrutinise HIE's Annual Accounts and Report when planned. The Team Leader, Sponsorship and Better Regulation Team, Scottish Government confirmed that SG will need to monitor, review and identify any implications. The Chief Executive confirmed that she will write to SG to lay out and provide an update on the impact to the scrutiny timetable and will write to the convenor of the Committee noting that the HIE team need to maintain timescales.

The Audit Director, Performance Audit and Best Value, Audit Scotland confirmed that the timetables for a range of agencies had been pushed back including Scottish Enterprise resulting in delays but confirmed that Audit Scotland would be doing their very best to deliver.

The Committee noted that they all recognise the problem and the efforts being made by everyone and the requirement to rearrange the next Committee meeting due to the rearranged timetable and asked the Chief Executive to flag-up the changed timetable to SG and the EEFW Committee.

3.2 BIIA Report – Annual Assurance

2019/20 3.2a Interim Assurance Statement

3.2b Health and Safety Committee Assurance

Report 3.2c ISFGG Assurance Report

The Director of Business Improvement and Internal Audit and the Compliance and Risk Manager covered all of the items together, providing an overview explaining that there was a bottom-up approach to the assurance process back to the Accountable Officer and a fit to the internal control process. The report summarises all assurance work undertaken in the year highlighting business improvement and best practice.

The review concluded that internal controls in year have generally been working well. No key control issues were highlighted by the business units in their declarations to the Accountable Officer. However, a number of emerging issues were highlighted. The overall opinion was of reasonable assurance and was based on the summary findings.

The Chair of the Health and Safety Committee separately provided a statement of assurance. This covered the role of the Committee; work undertaken in year; review of business unit returns; key areas of risk and/or improvement opportunities. The overall conclusion was that the controls were working well.

Assurance was sought from the Chair of the Information Security and Fraud Governance Group (ISFGG) on the areas of their remit. It specifically outlined the purpose of the Group; work undertaken in year; review of business unit returns; and identified areas of risk and/ or opportunities. The overall conclusion was that the controls were working well.

The Committee noted the reasonable assurance provided and asked in relation to Health and Safety whether anything additional was required from the H&S Committee and HR in relation to Covid-19. It was agreed that this would be requested from the Chair of the H&S Committee.

3.3 Draft Governance Statement

The Director of Business Improvement and Internal Audit provided an update on the draft Governance Statement that HIE is required to include in their annual accounts. This seeks to provide an understanding of the internal control structure and the management of resources and should be informed by assurance activity in year. This cannot be finalised until Audit Scotland has concluded its annual audit and will be updated at final accounts stage. A final version will be presented at the next Risk and Assurance Committee meeting.

3.4 Audit Scotland 2019/20 Management Report

The Audit Director, Performance Audit and Best Value, Audit Scotland presented the report summarising the key issues identified during the interim audit at HIE. This included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. Based on the interim audit work, it was concluded that the key controls within HIE's main financial systems are operating satisfactorily and appropriate fraud controls are in place.

It was noted from last year there were significant delays in publishing minutes of Board and Risk and Assurance Committee (RAC) meetings on HIE's website and that registers of interests had not been published for the three new Board members and that registers of interest for the remaining Board members had not been updated since April 2018. Following review, it was noted that registers of interest for all Board members were published on HIE's website and up to date in line with the bi-annual review. We have concluded that this action has been fully implemented. It was however concluded that more work is required to ensure that Board and RAC minutes are published within the target timescale

The Committee noted the report and confirmed that HIE would look to update the website with the minutes of the meetings by the end of July.

3.5 Risk and Assurance Committee Annual Report 2019/20

The Director of Business Improvement and Internal Audit provided a brief overview of the report outlining that this is a report from the Risk and Assurance Committee to the HIE Board providing a summary of Committee activity, the range of issues covered, training activity and issues to be carried forward for future scrutiny.

The Committee thanked the Director for the report noting the broad range of issues. It was noted that there was a need to update the section on the Committee development activity to clarify the activity in year.

Andrew Jenkins left the meeting.

4 PLANNED ACTIVITY GNÌOMHACHDAN PLANAICHTHE

4.1 Director of BIIA Annual Report 2019/20 4.1a Performance Against Assurance Plan

The Director of Business Improvement and Internal Audit presented a report summarising the activities of the Business Improvement and Internal Audit (BIIA) directorate during the 12 month period to 31 March 2020. The opinion provided in the is that the systems of overall internal control in financial year 2019/20 were generally satisfactory. This is as evidenced by all assurance activity in year as per our integrated assurance approach, and includes inhouse activity; outsourced assurance activity, for HIE specific activity and/or partner arrangements; and other external scrutiny such as Audit Scotland reviews and Scottish Government reviews. There are no particular issues to highlight and this will feed into the internal assurance response.

The Committee noted the report and the good work that had been undertaken on risk and risk management. This had moved forward and was aligned with best practice and was a good approach to risk.

4.1b European Compliance

The European Compliance Manager presented a paper outlining the EU audit compliance activities undertaken during the period April 2019 to March 2020. In year, there have been a significant number of reviews undertaken on EU and other funding compliance, including governance for City Deal monies. These have been largely compliant but with some areas with errors, particularly where there is high volume/ low value activity.

The Committee noted the update and thanked the European Compliance Manager.

4.1 c State Aid Activity

The State Aid Manager presented a paper summarising activity undertaken by HIE's State Aid staff in BIIA for the financial year ending 2020. A significant focus of the team in year has been in developing and delivering training and guidance for staff and in introducing and applying new application and due diligence arrangements. A detailed improvement plan and communication strategy is in place to support this and to ensure awareness across HIE. There has also been ongoing involvement in a court case and significant ongoing support for high risk complex projects to ensure compliant solutions are developed.

The Committee thanked the State Aid manager for the update noting that this will become more important as we leave the EU. The Committee also asked if the inhouse training sessions could be accessed by the Board. It was confirmed that these sessions are recorded so could be accessed.

4.2 Corporate Risk Register May 2020

The Director of Business Improvement and Internal Audit provided an update to the Committee on the Corporate Risk Register noting that this is a bottom-up and top-down approach and is used as a management tool and provides an informed position on risk. This also sits alongside the Covid-19 risk register and provides a summary of the movement of risk scores over time and details proposed new risks/amended actions and changes. Workshops have been undertaken to review the register alongside improved education to support the implementation of the new approach

The Committee welcomed the update noting that it was good to see target risk scores and the embedding of the process within HIE. The Committee also noted the number of high level risks on the register and recognised the need for them to be there. The high risks are reported at every Board meeting with Business Unit risks being reviewed by Leadership Team to draw out themes at corporate level.

It was further noted that a trending arrow to assist and highlight the direction of travel up or down could be used and indicates active management of risk. HIE to consider this.

4.3 Customer Feedback Report 2019/20

The Director of Business Improvement and Internal Audit provided a brief update to the Committee noting that this was a positive report providing an overview of customer feedback, incorporating both compliments and complaints for both Highlands and Islands Enterprise (HIE) and Wave Energy Scotland (WES) and an overview of requests received under the Freedom of Information (Scotland) Act and Environmental Information Regulations for both HIE, WES and Cairngorm Mountain Scotland (CMSL).

It was noted that with regards complaints, less had gone to investigation stage. As well as reporting complaints, it is important that HIE also acknowledge when things have gone well and there is a system in place to record compliments. HIE staff have been encouraged to share compliments with the Information Governance Team.

In relation to Freedom of Information, there is ongoing interest in relation to major projects. HIE uses themes identified to improve transparency and actively publishes information on approvals, account managed companies and information on Cairngorm and Space whilst being mindful of confidentiality issues and data protection regulations.

There are an increasing number of requests to share information held by HIE with partners or stakeholders. We are keen to maximise opportunities for collaboration, sharing and openness, while at the same time balancing this with the need to respect the principles of data protection, commercial sensitivities, and the need to protect and secure appropriate audit trails to support HIE's decision making.

The Committee asked how the complaints level compared with the previous year. It was confirmed that it was down from the previous year however there had been an increase in relation to the Covid business fund currently being implemented. HIE is looking to address these issues at Front line stage as far as possible.

The Committee noted the report.

4.4 Cyber Security Update

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

4.5 Any Other Business

5.5a Training and Development Requirements

Development requirements for the Committee were discussed and it was agreed that a schedule of training sessions would be drawn-up with the aim of keeping sessions to around one hour with a maximum of two hours. It was agreed that a session should be held to review the operation of the Risk and Assurance Committee and that this should be one of the first sessions to take place. Audit Scotland confirmed that they would be happy to provide examples of best practice.

4.7 Date of Next Meeting

The date of the next meeting is scheduled for 11 August 2020 but this may need to be rescheduled. It was agreed that this date could be used for a Committee development session.

5 ITEMS FOR INFORMATION **CUSPAIREAN AIRSON FIOSRACHADH**

5.1 Brexit Approach Update

This report was noted.

Adrian Kitson
Head of Executive Support
02 June 2020