

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

**MINUTE OF THE MEETING HELD ON 7 JUNE 2022 AT 1300 AT AN LÒCHRAN, INVERNESS CAMPUS,
AND BY TELECONFERENCE**

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

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	Compliance and Risk Manager
Chris Roberts	Head of Communications
Andrew Carton	Team Leader of Sponsorship, Scottish Government
Andrew Jenkins	Head of Finance, items 3.2, 3.3, 3.4
Elaine Hanton	Project Lead, Cairngorm / Energy team, items 2.2, 4.6

IN ATTENDANCE (ONLINE):

Pauline Gillen	Audit Director, Audit Scotland
Maggie Bruce	Senior Audit Manager, Audit Scotland
David Howie	Head of Strategic Projects, item 2.1
Dave Macleod	Head of Property and Infrastructure, item 2.2
David Hamilton	EU Funding Manager, item 2.3
Anna Miller	Head of Tourism, items 2.4
Audrey MacIver	Director of Energy Transition and Net Zero, item 4.6
Craig Lawrence	Customer Service Improvement Manager, Item 4.7
Alexander Maciver	Information Systems Manager, item 4.8
[Name redacted]	Information Assurance Manager, EIS, item 4.8
[Name redacted]	Head of Cyber Security, EIS, item 4.8

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting, particularly Pauline Gillen, who was joining the Committee for the first time as HIE's external auditor. There were no apologies.

1.2 Declarations of interest

Nick Kenton noted an interest as one of two HIE-appointed directors of Wave Energy Scotland, which would be discussed under item 4.6. The Chair confirmed that Belinda Oldfield no longer had a third party interest

in matters relating to Cairngorm and was now able to take part in discussions and decisions on this topic. There were no other declarations of interest.

1.3 To approve the minute of the Risk and Assurance Committee meeting held on 15 March 2022

The minute was approved.

1.4 Matters arising from the Risk and Assurance Committee meeting and action note from the meeting of 15 March 2022

The Chair confirmed that he had written to the Auditor General to express the Committee's concerns regarding the longer-than-usual timescale described in Audit Scotland's annual audit plan, and had received a response.

All other matters arising would all be covered under items in today's agenda.

1.5 Matters arising from the HIE Board meeting held on 26 April 2022

There were no matters arising from the HIE Board meeting on 26 April 2022.

2 CURRENT AND EMERGING ISSUES **CÙISEAN LÀITHEIL**

2.1 Space Hub Sutherland

David Howie joined the meeting.

The Head of Strategic Projects presented an update on Space Hub Sutherland, focusing on key areas of risk. The Committee noted that the overall project risk remained high but was continuing to reduce and that a Stage 3 Scottish Government Gateway Review of Space Hub Sutherland, carried out in May 2022, had resulted in a green / amber rating, indicating probable success.

It was highlighted that the HIE Board's approval of the full business case on 1 March 2022 required decision by the Scottish Government as the project was considered novel and contentious. Subject to government approval being received, it was expected that Orbex would use a subsidiary company (Forres NewCo) to take forward construction of the spaceport and launch site operations.

The major risks now concerned the complexities of launch vehicle design and manufacturing, and the need for Orbex to secure sufficient funding to support its business plan, which included construction of the launch facility and taking on the role of launch site operator. Lower risks included development of byelaws to secure the site for launch, benefits realisation and establishment of effective processes to monitor progress in the next phases of the project. Plans were in place for each of these risks and ownership remained with the current project team.

In discussion, the Head of Strategic Projects expressed confidence that Orbex was on course to meet its investment target, having secured significant core funding from sources including multiple private investors and the Scottish National Investment Bank.

The Team Leader, Sponsorship, noted that the Scottish Government had received HIE's documentation following the Board's approval of the full business case. This was currently being processed and will require Ministerial approval. The Scottish Parliament Finance Committee will also require to consider the decommissioning obligations and will be provided with information relating to site restoration as a

contingent liability for HIE and was expected to discuss this issue at its meeting later in June. It was confirmed, however, that the project was able to proceed in the meantime.

It was noted that the full HIE Board would have an opportunity to visit Orbex's premises in Forres on 27 June.

David Howie left the meeting.

2.2 Cairngorm

Elaine Hanton and Dave Macleod joined the meeting.

The Cairngorm team updated the Committee on matters relating to Cairngorm. This followed on from a full update that had been delivered to the HIE Board on 26 April 2022. Matters covered included: the funicular reinstatement works; masterplan; other capital investments; communications, and legacy legal cases. The team also updated the Committee on the format of funding assurance provided to Cairngorm Mountain (Scotland) Ltd (CMSL) for year-end audit purposes.

Reinstatement works were progressing well, with around 60 staff from HIE's contractor Balfour Beatty now active on site and focusing on supporting and strengthening the passing loop section of the infrastructure. The programme was on schedule for the funicular to be brought back into service in winter 2022/23.

CMSL's application to introduce family-friendly mountain biking had been approved by the Cairngorms National Park Authority (CNPA) planning committee. Procurement was under way and it was hoped to have the new trails built and opened before the end of 2022. HIE's Leadership Team had also approved £593k to upgrade car parking, install a new maintenance track and improve the sense of arrival for visitors. This last element had been identified as a priority in the Cairngorm masterplan and HIE was hopeful of securing part-funding from the CNPA.

Refurbishment of the Ptarmigan building was nearing completion, with snagging works in progress and tenders being invited to solve water ingress. HIE's external legal advisers had provided an update on legal cases, including risk, to the Board's Cairngorm sub-group on 26 May 2022. HIE's current focus was on updating expert reports and refining pleadings.

Lastly, it was confirmed that, as in previous years, HIE had provided CMSL directors with a letter of funding assurance for the 12-month period following signing of their accounts. This enabled the company's auditors to confirm that the business was regarded as a going concern.

The Committee noted this point, and welcomed the update.

Elaine Hanton and Dave Macleod left the meeting.

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

2.3 Net zero tourism 2021-22 final update

Anna Miller joined the meeting.

The Head of Tourism presented a paper updating the Committee on the delivery and final position of an additional £1.473m net zero tourism budget at the end of 2021-22, including lessons learned. This budget had been allocated by the Scottish Government in response to Covid-19 impacts on the sector and HIE's share represented 37% of the £3.95m national budget for net zero tourism recovery.

The report concluded that highly successful outcomes had been achieved through the use of HIE’s area team delivery structure, discretionary decision making and due diligence processes rather than creating a new programme with its own processes. Ninety-nine percent of the total additional budget had been allocated and 96% spent to support tourism recovery across the region.

Area teams had delivered 16 projects under four categories:

- Mountain resorts transition to net zero
- Visitor bike infrastructure supporting communities
- Decarbonising anchor tourism assets
- Remote and rural community-led electrical vehicle (EV) charge point installation

Scottish Enterprise had commissioned a ‘mapping and gapping’ exercise, in collaboration with HIE, South of Scotland Enterprise and VisitScotland, to identify priorities for future net zero activity to support tourism. It was anticipated that the four agencies would continue to collaborate as a forum to coordinate support, share best practice and avoid duplication.

In discussion, members asked whether the level of unmet sectoral demand for net zero support had been measured. The Head of Tourism replied that the provision of EV charge points in remote locations had proven very challenging within the given timescale for reasons including grid constraints. However, several communities were now being considered for mainstream support for EV points, using HIE grant-in-aid. Difficulty in accurately measuring CO2 emissions was also noted and the Chief Executive stated that this issue would be discussed at future meetings of the Risk and Assurance Committee and the full Board.

The Committee thanked the Head of Tourism for a clear and evidence-based report and offered their congratulations to all staff who had contributed to the scheme’s successful delivery.

Anna Miller left the meeting.

3 ACCOUNTS RELATED **STUTHAN CUNNTASACHAIL**

3.1 Audit Scotland 2021/22 management report – verbal update

The Audit Director, Audit Scotland, introduced herself to the Committee as HIE’s appointed auditor for 2021/22. She noted that issues that the Committee had raised concerning the timetable in the draft audit plan had now been resolved and the plan would be published on the Audit Scotland website in due course.

There would be no formal interim report from Audit Scotland this year, however any significant issues would be brought to the Committee’s attention. Testing had been completed on HIE systems for payroll, cash, banking and accounts receivable, with no issues identified. Testing of income was close to being finalised, with no significant issues found to date.

Some difficulties had arisen when HIE shut down its former management system, HMS, following the introduction of MyHIE. Audit Scotland had been unable to access HMS following its shutdown, so had to carry out additional substantive testing on some payments in the early part of the financial year. This was noted.

The Audit Director welcomed HIE’s intention to use the longer timeframe for preparing its 2021/22 accounts to enable greater scrutiny and quality control prior to their submission to Audit Scotland in mid-August. At the Chair’s invitation, she outlined the challenges that Audit Scotland continued to face as a result of the Covid-19 pandemic and the impact this was having on audit timescales for many public bodies. She also clarified that Audit Scotland’s audit work on the HIE accounts would commence formally on 29 August.

Members stressed the need for HIE staff to present unaudited accounts to the Committee in good time to allow for full scrutiny and it was agreed that this point would be picked up under the next item on the agenda.

3.2 Annual accounts and timetable update

Andrew Jenkins joined the meeting.

The Head of Finance presented the proposed timetable for HIE's 2021/22 accounts which had been prepared following early engagement with Audit Scotland. This will see draft report and accounts being reviewed by HIE's Leadership Team and the Scottish Government in July, to be ready for submission to Audit Scotland on 15 August 2022. The target date for the accounts to be laid in the Scottish Parliament, following audit, was 16 December 2022, two weeks in advance of the statutory deadline.

It was also confirmed that the subsidiary and joint arrangement audits for Wave Energy Scotland, Orkney Research and Innovation Campus, HIE Ventures Ltd and Cairngorm Mountain (Scotland) Ltd had started on 25 April and accounts were on course to be completed by 1 August.

In discussion, it was clarified that the draft HIE annual report and accounts will be presented to the Risk and Assurance Committee for review at its scheduled meeting on 20 September 2022, and audited report and accounts submitted for final review, prior to signing by the accountable officer, on 6 December. The September date was currently missing from the timetable and would be added.

The Committee noted the timetable and acknowledged that it was acceptable in light of the exceptional demands placed on Audit Scotland this year. However, the Chair reiterated firmly that HIE wished to return to an earlier audit finalisation and publication date in future years and December was only acceptable in the present, highly unusual circumstances.

3.3 BIIA report – Certificates of assurance for 2021/22

The Compliance and Risk Manager presented a report on HIE's annual assurance process, noting that HIE was required to confirm annually to the Scottish Government that its internal control environment was operating effectively, and that the Committee had previously agreed the planned approach for 2021/22 at its last meeting.

The report concluded that HIE's internal controls had generally worked well during the year. No significant control weaknesses had been identified, although actions to address some control issues and improvement opportunities had been noted. Areas of significant uncertainty that HIE expected to highlight to the government sponsor team in its interim return concerned Cairngorm Mountain; economic uncertainty, and budget challenges.

In addition to the report, the Committee had also been issued through Boardbooks with four related documents for information. These were: HIE's interim assurance statement; the internal control checklist, and stewardship reports of the Health and Safety Committee and the Information Security, Fraud and Governance Group.

In discussion, the Committee welcomed steps being taken to design and implement effective compliance processes relating to external funding, noting that this environment was changing significantly following Brexit. Members were assured to hear that safety issues affecting the Orkney Research and Innovation Campus were not unusual given the age of the original building and were being addressed, and that steps were being taken to recruit a new Head of Information Governance for HIE.

The Committee also endorsed the wording of the draft interim statement of assurance that the Chief Executive, as Accountable Officer, would submit to HIE's sponsor team in the Scottish Government. It was noted that an update on Scottish Government funding for the Cairngorm funicular reinstatement project was expected to be included in the finance update at the next meeting of the full Board, on 28 June.

The Committee thanked the Compliance and Risk Manager for her comprehensive report.

3.4 Draft governance statement

The Director of Business Improvement and Internal Audit (BIIA) presented HIE's draft governance statement for 2021/22. The governance statement forms part of the annual report and accounts and is compiled with input from across HIE. The Committee noted that, as there was a requirement for the governance statement to align with the performance report and financial statement in the annual report and accounts, further input, amendments and refinements will be required until the annual audit has been concluded.

Members welcomed the statement and highlighted some matters to be checked for consistency. One was to confirm the present status of an equality advisory panel, which the statement indicated was being reviewed, and another was to ensure that a reference to IT provision was aligned with current arrangements, which would be discussed later in today's meeting. Otherwise, the Committee confirmed that they were content with the draft as presented.

Andrew Jenkins left the meeting.

4.1 Risk and Assurance Committee annual report for 2021/22

Members agreed that the draft Risk and Assurance Committee annual report for 2021/22 was a fair reflection of work undertaken during the year and provided positive assurance regarding HIE's internal control environment. The report will be presented to the HIE Board at its next meeting. The Chair expressed his thanks to the Committee members for their participation throughout the year.

4.2 Director of BIIA annual report for 2021/22

The Director of BIIA presented a summary of the directorate's activity in financial year 2021/22, concluding that the systems of overall internal control during the year were generally satisfactory. The report highlighted areas where there was a need for continued focus on compliance and good practice, outlined key risks and opportunities, and demonstrated an increased focus on capturing and sharing lessons learned across HIE. It also described activity undertaken and key areas being carried forward into 2022/23

4.2a Performance against assurance plan for 2021/22

The Director of BIIA described progress against the agreed assurance plan for 2021/22, with details of actual activity in February and March 2022. The update showed good progress against the agreed assurance plan, using both internal resources and through outsourced arrangements, and noted that some work in progress would be concluded early in 2022/23.

The director highlighted that a significant amount of time had been required to support ongoing special investigations and complaints investigations, and in responding to legal challenges and FOI requests. It was also noted that procurement of routine internal audit support for HIE and for specialist Information Systems support for HIE and its EIS partners has been undertaken and solutions were now in place. One outstanding issue that was ongoing concerned the need to learn and apply lessons relating to external funding.

The Committee welcomed the update and the comprehensive approach being taken by the director and her team. The Chair noted that the high volume and broad range of activity currently being undertaken showed no sign of decreasing and asked whether the director believed the assurance function in HIE was sufficiently resourced. The director noted that the team took a systematic approach to plan activity through the year, and had the ability to draw on external support such as specialist legal advice when required. However, it was agreed that workload was high and would be kept under review.

Asked when MyHIE phase 2 would be implemented, the director advised that, having been introduced as a minimum viable product, MyHIE was now working well as a platform with potential to support greater and more efficient collaboration across Scotland's business support partnership. The approach being taken was ongoing and agile, rather than phased, and designed to foster a culture of continuous improvement across HIE and partner agencies for the benefit of customers.

The Committee indicated they were impressed by the quality of the report and the work undertaken on assurance. Audit Scotland representatives agreed, noting that they relied heavily on the work of HIE's BIIA team and the reports presented today were very valuable. The Chair emphasised, however, that it would be important to continue to monitor the level of resource required.

4.3 Business transformation plan – approach to best value and value for money

The Director of BIIA presented the first draft of a HIE Business Improvement Plan, which would be aligned with *best value* characteristics and *value for money* expectations. This paper had been considered by the HIE Leadership Team who had agreed that a working group would be put in place to develop the plan while another would look at financial resource efficiency. This activity sits alongside and is aligned to the work of other governance groups such as *Workforce Planning* and *Digital Change*.

In discussion, members noted alignment with the operational efficiency best practice in the National Audit Office and suggested that the recent launch of the new National Strategy for Economic Transformation made this an appropriate time for HIE to review the effectiveness of its delivery environment. The inclusion of sustainability among best value criteria, which is closely aligned with HIE's net zero priorities, was also welcomed.

The Committee noted the report and expressed support for the approach being recommended. The Chief Executive emphasised that the purpose of the plan was to optimise HIE's overall operational efficiency and effectiveness, and noted that further discussion would take place with the full Board.

4.4 Risk register at May 2022

The Committee noted the latest HIE corporate risk register. Recent changes included a new risk on inflationary pressures; the merging of regional infrastructure risks concerning housing and digital technology and the expansion of this risk to include ferries, *[sentence removed due to commercial sensitivity]*. A risk previously titled *Volatility in the external business environment* had been refocused as *Labour shortages and skills gaps*.

The Director of BIIA informed the Committee that this document was a working draft that would be developed before going to the HIE Board meeting on 28 June. Revisions were expected to include an additional risk concerning HIE's budget out-turn.

The Committee noted the draft register, particularly welcoming the inclusion of transport and housing as key issues that affect the economic health of the region.

4.5 Board members' code of conduct

The Committee welcomed an updated draft code of conduct for HIE Board members which had been prepared in line with a new revised model code and was now very close to being finalised. Only minor matters relating to the model code remained to be resolved, and HIE was expecting to hear shortly from the Public Bodies Unit on these. The Committee approved a recommendation to delegate authority to agree final wording to the Chief Executive and the Director of Business Improvement and Internal Audit.

It was also noted that training for all Board members would be arranged later in the year.

4.6 Wave Energy Scotland governance

Audrey MacIver and Elaine Hanton joined the meeting.

The Committee received an update on the Wave Energy Scotland (WES) governance review, including the environment in which WES operates, which it noted was evolving significantly at present. The paper set out several proposed changes to the governance structure of the HIE subsidiary that could be implemented quickly, particularly around board membership and formal reporting. Looking to the longer term, however, it advised that, until the longer-term national strategy for marine renewables is clear, completion of this review and any further proposed changes should be put on hold.

Three changes affecting the board of WES were proposed to be carried out quickly. The first was that the HIE Finance Director will step down after a new member has been identified – expressions of interest will be sought from senior staff who are skilled in financial and budget management and have knowledge of accounting practices. Secondly, HIE would identify appropriate external representation, most likely from partner organisations with a knowledge of the marine energy sector (and potentially floating offshore wind), technology development and investment challenges and opportunities. This could lead to one or more new appointments being made to the WES board. Thirdly, it was recommended that the HIE Area Manager, Orkney, take on the role of WES board Chair.

It was also recommended that the present board Chair, HIE's Director of Strategic Projects should remain on the board and become the senior responsible owner (SRO) for WES within HIE. This move would also see a return to more formalised reporting and performance monitoring. In support of benefits realisation, stronger linkages will be established between WES and HIE's client engagement, supply chain development and other funding activities.

Lastly, it was recommended that decisions on the future form and membership of a stakeholder or advisory group for WES be put on hold until the future strategy and role of WES is clearer. However, it was noted that external input to WES governance remained important and the current absence of a formal mechanism for this was a temporary situation during a period of evolution for the sector as a whole.

The Committee agreed with these recommendations and asked whether input from developers or business interests in the sector was being considered. HIE staff responded that this had been considered, but the potential benefits of any such input would need to be balanced carefully against the commercial interests of developers in order to avoid conflict.

Audrey MacIver and Elaine Hanton left the meeting.

4.7 Customer feedback report for 2021/22

Craig Lawrence joined the meeting.

The Committee noted the findings of the annual customer feedback report which will be included in the 2021/22 HIE annual report and accounts. This covered three main areas: compliments and complaints to HIE and WES; requests for information under the Freedom of Information (Scotland) Act and Environmental Regulations for HIE, WES and Cairngorm Mountain (Scotland) Ltd, and an overview of next steps to optimise customer service delivery.

The report observed that HIE was continuing to deal with a large volume of information requests, many of which were complex and challenging to respond to within statutory timescales. Internal processes, roles and responsibilities had been clarified, although specialist external advice to help manage information requests continued to be necessary. A monthly report to Leadership Team is being implemented to support the early identification of customer issues, noting that these can emerge in a variety of ways, including correspondence from politicians and other stakeholders, media enquiries, parliamentary questions, and on social media as well as the direct submission of complaints and information requests.

The Committee discussed the report in some detail, noting the value of unsolicited customer feedback in informing HIE's approach to strategic planning and service delivery, particularly if key themes were identified. The importance of instilling and promoting a customer-focused culture across the organisation was also stressed.

The Committee thanked the Customer Service Improvement Manager for his report.

Craig Lawrence left the meeting.

4.8 Cyber updates

Alexander MacIver, [Name redacted] and [Name redacted] joined the meeting.

The Chair welcomed HIE's new Information Systems Manager, who was attending his first meeting of the Committee, and the two representatives of HIE's shared information systems provider, EIS. He also thanked EIS for the improved clarity of their reporting to the Committee.

4.8a SEPA lessons learned and action plan

4.8b Cyber maturity

The Committee considered a paper from EIS, summarising the effects of the December 2020 cyber attack on the Scottish Environment Protection Agency (SEPA) which had severe consequences for that organisation, alongside a report on actions being taken by HIE to implement cyber maturity.

Following its attack, SEPA had produced a lessons learned report in October 2021, which EIS had reviewed, producing a series of recommendations for HIE and other public bodies. This report had since been updated, focusing on progress by EIS and its partners in delivering recommended actions, and a specific report on lessons for HIE was being presented today.

The Director of Finance and Corporate Services explained that HIE took cyber security extremely seriously and was taking a risk-based prioritisation approach that would apply lessons learned from SEPA's experience. *[Sentences removed due to commercial sensitivity].*

A key lesson was that, although SEPA was considered to have been well prepared in its cyber security, all organisations remained vulnerable to phishing attacks. It was therefore important to design and implement clear and strong business continuity procedures that could be applied in the event of a successful attack, as well as taking preventive actions and being ready to treat an attack swiftly.

[Sentences removed due to commercial sensitivity]. Members were also assured that HIE was taking measures to ensure business continuity was treated as a priority, and to hear that HIE conducted regular security testing, including sending phishing emails to staff and Board members.

[Paragraph removed due to commercial sensitivity].

Alexander MacIver, Claire Murray and Chris Knight left the meeting.

4.9 RAC development programme

The Director of BIIA reported that training sessions were being arranged for the Committee and other Board members. HIE staff would lead a session to cover subsidies; the Standards Commissioner would deliver training on the new model code for board members, and Azets had also provided HIE with the opportunity for some members to join a session they are running for non-executive directors.

4.10 Any other business

There was no other business. The Chair thanked all who had attended and asked for the draft minute to be delivered as soon as possible.

4.11 Date of next meeting

The next meeting of the Committee is on Tuesday 20 September 2022, starting at 9.00 am.

Chris Roberts
Head of Communications
7 June 2022