

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

MINUTE OF THE MEETING HELD ON 7 DECEMBER 2021 AT 0900 BY TELECONFERENCE

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

IN ATTENDANCE:

Carroll Buxton	Interim Chief Executive
Nick Kenton	Director of Finance and Corporate Services
Sandra Dunbar	Director of Business Improvement and Internal Audit
Adrian Kitson	Head of Executive Support
Louise Macmillan	Compliance and Risk Manager
Gordon Smail	Audit Director, Performance Audit and Best Value, Audit Scotland
Maggie Bruce	Senior Audit Manager, Audit Scotland
Andrew Carton	Team Leader of Sponsorship, Scottish Government
Leighton Herriot	Manager of Sponsorship, Scottish Government
David Oxley	Director of Strategic Projects, item 2.1
Elaine Hanton	Project Lead, item 2.2
Dave MacLeod	Head of Property and Infrastructure, item 2.2
Harvey Stevenson	Head of Strategic Projects, item 2.3
Louis Waters	EY Director, Consulting, item 3.3
Claire Murray	Head of Cyber Security, EIS, items 3.3 / 3.9
Chris Knight	Information Security Manager. EIS, items 3.3 / 3.9
James Laraway	Business Improvement Manager, item 3.5
Emma Stevenson	Financial Systems Accountant, item 3.7

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting noting that apologies had been received from Belinda Oldfield. Belinda had provided comments to the Chair that will be referenced when the relevant items are discussed.

1.2 Declarations of interest

Angus Campbell declared an interest with UHI in his role as regional lead for further education, there are no papers related to UHI, so this was not considered to present a conflict of interest. Nick Kenton declared an interest as a HIE-appointed director of Wave Energy Scotland, which would be discussed under agenda items 2.4 and 3.2. This was not considered to present a conflict of interest.

1.3 Minute of the Risk and Assurance Committee meeting held on 23 September 2021

The minute of the meeting of 23 September 2021 was approved subject to some changes to be made in relation to item 3.1 Audit Scotland Annual Report for 2020/21. Audit Scotland had suggested some revised wording to be agreed between the Director of Finance and Corporate Services and the Audit Director, Performance Audit and Best Value, Audit Scotland. The revised minute would be presented to the next meeting for approval.

1.4 Minute of the Risk and Assurance Committee meeting held on 24 September 2021

The minute of the meeting held on 24 September 2021 was approved.

1.5 Matters arising from the Risk and Assurance Committee meeting and action note from the meetings of 23 and 24 September 2021

There were no matters arising that were not covered on the meeting agenda.

1.6 Matters arising from the HIE Board meetings held on 26 October 2021

There were no matters arising.

2 CURRENT AND EMERGING ISSUES **CÙISEAN LÀITHEIL**

2.1 Space Hub Sutherland

David Oxley joined the meeting.

The Director of Strategic Projects presented a paper providing a short update focussing on the key areas of risk. The 2 key areas are the Wildlands sporting/shooting lease [*Line removed in the interests of the effective conduct of public affairs*].

As agreed with the Board, discussions re the Wildlands sporting lease and the Memorandum of Understanding are progressing and close to resolution.

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

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

David Oxley left the meeting.

2.2 Cairngorm

Elaine Hanton and Dave MacLeod joined the meeting.

The Project Lead – Cairngorm and the Head of Property and Infrastructure provided an update on HIE’s on a range of Cairngorm related matters, including the funicular strengthening works, CMSL matters, masterplan, and legacy legal cases. The Committee was alerted to the emerging risk associated with the replacement of the funicular control system and actions being taken in relation to this.

It was noted that H&S audit reporting has scored the site a 98.39% against a target of 85% and a recent Considerate Constructors Scheme audit has returned an “excellent” score of 42 out of 50. Balfour Beatty works continue to progress on site with all ground works now complete, bearing works in full swing and winter demobilisation underway.

[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].

The Committee welcomed the update acknowledging that staff will continue to report on programme, costs, and progress to the HIE Board and the Risk and Assurance Committee.

Elaine Hanton and Dave MacLeod left the meeting.

2.3 ORIC Update

Harvey Stevenson joined the meeting.

The Head of Strategic Projects (Orkney Area Team) presented a paper to the Committee providing a further update on progress relating to the delivery of the Orkney Research and Innovation Campus (ORIC) project. The update covered, the following: 1) The phase 1 construction is now complete; 2) The facility is fully occupied, and tenants are up to date with rent; 3) There are changes on the ORIC Board with an extension to the term for one of the Board members with others going *[Sentences removed in the interests of the effective conduct of public affairs].*

7) A second phase of ORIC development is one of the key Orkney based projects contained in the Island Growth Deal proposals.

The Committee asked why the review of governance was only being done now when it was agreed in 2020. The Head of Strategic Projects confirmed that the review had commenced last January and has been ongoing for the last 12 months. HIE take the governance lead and OIC get involved when required. Moving forward there will be greater involvement on governance from both JV partners.

The Committee noted the further progress to date in respect of the ORIC project and welcomed the governance review and the work on the Board succession planning that is underway.

Harvey Stevenson left the meeting.

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

3 PLANNED ACTIVITY **GNÌOMHACHDAN PLANAICHTHE**

3.1 Assurance plan progress update to end October 2021

3.1a Approach to delivery of Information Systems audits

[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].

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

3.2 Approach to annual accounts process lessons learned

The Director of Business Improvement and Internal Audit provided an update on the approach being taken to gathering lessons learned from the annual accounts process. Following conclusion of the annual accounts and audit process for 2020/21, it was agreed that sessions to gather lessons learned should be held to ensure good practice was captured and any required improvements were implemented for future accounts preparation. It was agreed that the following sessions would be arranged: 1) Internal colleagues; 2) External Audit – Audit Scotland; 3) External Audit – Saffery Champness; and 4) RAC members.

An initial session has been held with internal colleagues and a number of learning points were noted, with some already being incorporated into the planning process for the 2021/22 accounts. Dates for sessions have also been agreed with External Auditors with the session for RAC members suggested for January 2022.

A report on the findings and conclusions from all these sessions will be provided at the next Committee meeting, together with noting any required actions to ensure a smooth process for the 2021/22 accounts.

The Audit Director, Performance Audit and Best Value, Audit Scotland welcomed the process, confirming full engagement. This is year 6 of Audit Scotland's involvement when the normal period is 5 years. It was noted that wider pressures mean that Audit Scotland are running behind schedule and will meet with HIE in January.

The Chair of the Committee thanked Audit Scotland for their comments, useful input and cooperation, also noting that he would like to see the timetable restored to the pre-covid position which would be challenging but a good target.

3.3 Information systems:

3.3a EY Report – EIS Cyber Security Follow up review

3.3b Assurance Map

3.3c Planned audits

Louise Waters (Ernst & Young), Claire Murray (EIS) and Chris Knight (EIS) joined the meeting.

All of these items were taken together with the external participants attending for items 3.3a-c and item 3.9.

The Ernst & Young (EY) Director of Consulting provided an update on the outcomes of the EY assurance mapping exercise undertaken on behalf of the EIS partnership. EY prepared an assurance map on behalf of the EIS Partnership to identify key sources of assurance, *[Item removed in the interests of the effective conduct of public affairs]* and help to inform future assurance requirements, including required internal audits.

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

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

3.4 Risk register at November 2021

James Laraway joined the meeting.

The Director of Business Improvement and Internal Audit provided an update on the Risk Register noting that this is the latest version so has not been reviewed by the HIE Board but had been updated following the last Board meeting. *[Sentences removed in the interests of the effective conduct of public affairs].*

HIE has engaged with external partners to benchmark with them in respect of their current approach to horizon risk scanning (SG, HES, SDS and SE). Internal discussions have commenced to agree an internal approach to horizon risk scanning and reporting and this will be used to significantly refresh the risk register going forward.

In advance of this process there has not been huge movement in the register. The digital connectivity risk has been updated and replaced by two separate risks: 1) Digital strand of Inverness City-Region Deal; and 2) Gigabit connectivity.

Four Corporate Risks have had their scores reduced: 1) *[Item removed in the interests of the effective conduct of public affairs]*. 2) People, resource, delivery, and approach; 3) Impact of Covid on Tourism Sector; and 4) *[Item removed in the interests of the effective conduct of public affairs]*.

The Committee highlighted that when a risk reduces or increases, there is no commentary to explain why. The Business Improvement Manager confirmed that discussion with the risk owner is undertaken to agree changes but could be included in the register. It was agreed that it would be useful to have an explanation of why a risk was increasing or decreasing and this would be included in the future.

3.5 Risk management – approach to wholesale refresh of risk register and project risk characteristics

The Director of Business Improvement and Internal Audit updated the Committee on the approach to the refresh of the risk register, noting that the last 2 years have been tactical in terms of risk largely as a result of the focus on Covid response. As part of HIE's ongoing review of risk management a wholesale refresh of the corporate risk register will be undertaken including external and internal horizon scanning. Themes have been identified for further discussion which will require to be refined and updated.

The Committee welcomed the paper noting the worthy approach and look forward to a further update at a future meeting.

James Laraway left the meeting.

3.6 HIE Chief Executive Conflict of Interest protocol

The Director of Business Improvement and Internal Audit outlined the proposed protocol that had been developed for the new HIE Chief Executive to ensure that there are arrangements in place in HIE to ensure these are handled appropriately.

The Committee supported and endorsed the comprehensive protocol noting that it was good to have this detailed document in place.

3.7 Public Services Reform Act annual report

Emma Stevenson joined the meeting.

The Financial Systems Accountant presented a paper to allow the Committee to review the 2020/21 Public Services Reform (Scotland) Act 2010 disclosure for HIE, HIEs subsidiaries and Joint Ventures. Under the Public Services Reform (Scotland) Act 2010 HIE is required, as soon as is reasonably practicable after the end of each financial year, to publish a statement of expenditure categories defined in this Act.

In previous years information for Wave Energy Scotland (WES) as a subsidiary of HIE was incorporated into the information for HIE, for 2020/21, WES has been split out and the prior year's figures for HIE and WES restated. Information for Cairngorm Mountain Scotland Limited (CMSL) as a subsidiary and Orkney Research and Innovation Campus (ORIC) as a joint venture are reported in line with guidance issued by the Scottish Government.

A comparison of the highest value movements in Consultancy spend between 2020/21 and 2019/20 has been provided for reference. There is an overall decrease in spend year on year primarily due to reduced costs with one consultant on the Space Hub Sutherland project.

The Committee noted the paper highlighting that it was pleased to see the consultancy spend.

Emma Stevenson left the meeting.

3.8 Legal issues overview

The Director of Business Improvement and Internal Audit provided an update on areas where legal input is required to support HIE activity. As a result of HIE having to deal with a number of ongoing legal issues and the resultant need to use external legal agents the Board had requested a paper be prepared with an update then being provided to the Board.

Over recent years, HIE has had to deal with a number of legal related issues, some of which have resulted in HIE being involved in a court process. There are a number of themes where legal input is required to support HIE activity, the main areas can be summarised as follows: 1) Pursuing innovative, higher risk transformation activity; 2) Investigating complaints and defending challenges of HIE decisions; 3) Pursuing previously agreed and designed risk mitigations; 4) Business as Usual day to day activity.

There are a number of areas of lessons learned and process improvements, these include: 1) Legal challenge is likely to be an increased feature linked to HIE progressing high risk transformational activity and a consequence of the new subsidy environment and the remedies available; 2) Taking risk and being involved in complex activity which requires legal input will be an ongoing feature of HIE activity; 3) Having a good understanding of risk, early engagement, good application of due diligence processes and having supporting audit trails are critical; 4) Good knowledge sharing and using risk characteristics to target resources and expertise will be an increased feature of our approach; 5) Due diligence and reviewer training are areas of priority activity being progressed by the new Process Change Group – building

capability, capacity and confidence among our colleagues; 6) Use of project budgets and increase reporting of legal costs to increase transparency and accountability; and 7) Review of resourcing and build in increased resilience.

The Chair of the Committee noted that with a possible increase in Judicial Reviews, the resourcing required to deal with this would be high. The Interim Chief Executive confirmed that HIE was in the process of filling the advertised Legal role and were looking at the possibility of a Graduate to support activity relating to subsidy control.

The Chair asked if there were any similar issues elsewhere in the public sector. The Audit Director, Performance Audit and Best Value, Audit Scotland commented that it very much depended on the nature of the Business and HIE was in the business of taking risks and the open assessment is very useful.

The Committee noted the update and asked that the paper be circulated to Board members via the resources section on Boardbooks.

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

3.10 RAC Effectiveness review

The Director of Business Improvement and Internal Audit provided a brief overview of the findings from the completion of the effectiveness checklist by Committee members and to highlight next steps. The Director thanked the Compliance and Risk Manager for issuing the survey and thanked the Committee members for completing this in such a short timescale.

Overall, the Committee are comfortable with the information provided. The length of the agendas was highlighted with there being lots of items, some of which take a lot of discussion and others less so. The Committee agreed that the balance of time on agenda items was appropriate and that the items covered all important areas. The Interim Chief Executive acknowledged that the agenda could look daunting however there is a pre-meeting to ensure that the focus is on key areas and the number of agenda items should be kept under constant review.

The Chair of the Committee asked if focussed Development meetings could be resumed for members to ensure that they were up to date with the subjects and items covered such as subsidy control. The Director confirmed that she would be content to run some focused sessions however was aware of the asks of Board members and a joined-up approach would be taken to reduce the time burden. The Audit Director, Performance Audit and Best Value, Audit Scotland confirmed that he was happy to feed into this annual process, noting that the Committee was balanced in terms of scrutiny and risk.

The Chair confirmed that he was pleased with the report and thanked the Committee members for completing the survey and asked if the Committee was helpful to the Accountable Officer. The Interim Chief Executive confirmed that the Risk and Assurance Committee is helpful in that it allows good discussion and provides challenge and support and that she agreed with the assessment taking on board the comments re the agenda and would review priorities.

3.11 Any other business

There was no other business.

3.12 Date of next meeting

The date of the meeting has still to be confirmed and will be scheduled for either the week beginning 7th or 14th March 2022.