

**RISK AND ASSURANCE COMMITTEE**  
**COMATAIDH CHUNNART AGUS SGRÙDAIDH**

**MINUTE OF THE MEETING HELD ON 15 MARCH 2022 AT 0900 BY TELECONFERENCE**

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

**IN ATTENDANCE:**

Stuart Black	Chief Executive
Nick Kenton	Director of Finance and Corporate Services
Sandra Dunbar	Director of Business Improvement and Internal Audit (BIIA)
Adrian Kitson	Head of Executive Office
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
David Oxley	Director of Strategic Projects, item 2.1
David Howie	Head of Strategic Projects, item 2.1
Elaine Hanton	Project Lead, Cairngorm, item 2.2
Dave MacLeod	Head of Property and Infrastructure, item 2.2
David Hamilton	EU Funding Manager, item 2.3
Lorna Gregson-MacLeod	Head of Planning and Partnerships, item 2.3
Janie Sheridan	Head of Business Transformation, item 2.5
Jeff Foot	Head of External Funding and Investment, item 4.3
Emma Stevenson	Financial Systems Accountant, item 4.4

**1 STANDING ITEMS**  
**CUSPAIREAN COTHROMACH**

**1.1 Welcome and apologies**

The Chair welcomed everyone, including Stuart Black who was attending his first meeting of the Risk and Assurance Committee since becoming Chief Executive of HIE in January 2022. Today would also mark the last meeting of the committee to be attended by Gordon Smail as Audit Director, Performance Audit and Best Value for Audit Scotland. The Committee thanked Gordon for his contributions over the years and wished him well for the future.

No apologies were received.

**1.2 Declarations of interest**

The following interests were declared:

- Belinda Oldfield declared a related party interest in Mott MacDonald, which has involvement in engineering works affecting the Cairngorm funicular, item 2.2. It was agreed that she would be leave the meeting when this item was discussed.
- Angus Campbell declared an interest with UHI in his role as the university’s regional lead for further education. As there were no papers related to UHI, this was not considered to present a conflict
- Nick Kenton declared an interest as a HIE-appointed director of Wave Energy Scotland. This was noted, although there were no papers related to WES on the agenda.
- Calum Ross declared an interest in Argyll and the Isles Tourism Cooperative but this was not considered to present a conflict with any matter on today’s agenda.

### **1.3 Minute of the Risk and Assurance Committee meeting held on 7 December 2021**

The minute of the meeting of 7 December 2021 was approved.

### **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 meeting of 7 December 2021**

The Director of Finance and Corporate Services informed the committee that the *[Sentence removed in the interests of the effective conduct of public affairs]*.

All other matters arising were covered on the meeting agenda.

### **1.6 Matters arising from the HIE Board meetings held on 14 December 2021 and 1 March 2022.**

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

## **2 CURRENT AND EMERGING ISSUES** **CÙISEAN LÀITHEIL**

**2.1** *[Item removed due to commercial sensitivity and in the interests of the effective conduct of public affairs]*.

### **2.2 Cairngorm**

*Belinda Oldfield left the meeting.*

*Elaine Hanton and Dave MacLeod joined the meeting.*

The Project Lead, Cairngorm, and the Head of Property and Infrastructure provided an update on a range of Cairngorm-related matters. These included the current funicular strengthening works, matters concerning operating company CMSL, the long-term Cairngorm masterplan, stakeholder engagement and legacy legal cases.

With the programme of strengthening works shut down over winter, HIE’s focus had been on resolving design challenges. In addition, negotiations were continuing between the project manager and contractor over, *[Sentences removed in the interests of the effective conduct of public affairs and commercial sensitivity]*

The Committee noted that the Minister for Business, Trade, Tourism and Enterprise had written to HIE on

22 February 2022 confirming he was content for the funicular reinstatement works to continue. The Minister indicated that, while he expected HIE to seek to meet the additional costs, he acknowledged that HIE's capital budget was fully allocated. Scottish Government officials would work with HIE to manage the budget pressure in-year.

Balfour Beatty was due to restart on the mountainside in April and the latest draft programme continued to forecast completion by 19 September, after which it was planned to install the new control system and carry out all necessary inspection and certification prior to the service resuming during winter 2022-23.

On legal issues, a hearing had taken place on 10 February 2022 involving all parties in both the contractor / design and guarantee claims at which it had been agreed that a further procedural hearing would be set

for late July. In the meantime, all parties were expected to share expert reports and make any further adjustments to their pleadings.

The Committee welcomed the update, noting in particular the Scottish Government's confirmation that the reinstatement project should proceed and the related funding arrangements.

*Elaine Hanton and Dave MacLeod left the meeting.  
Belinda Oldfield rejoined the meeting.*

### **2.3 EU claims update**

*David Hamilton and Lorna Gregson-MacLeod joined the meeting.*

The EU Funding Manager and the Head of Planning and Partnerships updated the committee on progress regarding several EU funding claims.

*[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].*

*David Hamilton and Lorna Gregson-MacLeod left the meeting.*

### **2.4 External funding approach**

The Director of Business Improvement and Internal Audit (BIIA) provided a summary of external funding that HIE is currently using or looking to secure from a range of sources. The profile of external funds available to HIE was no longer predominantly European, but now comprised multiple sources, including at present both the UK and Scottish Governments, the UK Space Agency and the Nuclear Decommissioning Authority, and potential private investment, in addition to the EU. The total amount of external funding that could be available at present was between £60m and £70m.

The Committee noted the changing environment for external funding and approved a set of recommendations. These were:

- HIE will put in place an external funding strategy.
- Each activity will have a clear owner supported by clarity of expectations regarding compliance and delivery

- Senior responsible owners (SROs) will report regularly to the Leadership Team on progress with external funds via directorate reports and a new External Funding Board
- Reporting on external fund delivery will be included in the annual assurance return as part of the annual internal control process.
- Lessons learned sessions will be held

The Committee welcomed this paper and endorsed the revised approach being taken to other funding and the focus on ensuring lessons were learned to improve the control environment.

## 2.5 MyHIE benefits realisation approach

*Janie Sheridan joined the meeting.*

The Head of Business Transformation presented an update on progress with the implementation of MyHIE, the organisation's digital environment to deliver customer support services. Following successful implementation of phase one, it was important to focus on, and invest in, continuous improvement, both to take the next steps in transforming the delivery and support environment for customers, and to review and optimise benefits from the investment that had been made in MyHIE to date.

A benefits realisation plan had been included in the full business case for MyHIE. This had now been refreshed and included a suite of indicators based on Microsoft's business value mapping approach, and would be reviewed and updated every six months.

The Committee noted the progress that had been made to date and endorsed the revised approach to benefits realisation.

*Janie Sheridan left the meeting.*

## 3 ACCOUNTS RELATED STUTHAN CUNNTASACHAIL

### 3.1 Audit Scotland 2021/22 annual audit plan and fee

Audit Scotland's annual audit plan for financial year 2021/22 was presented by the organisation's Audit Director, Performance Audit and Best Value.

While the Committee welcomed the contents of the plan overall, members expressed concern and disappointment at the length of the proposed timetable. This set a target date of 6 December 2022 for signing the independent auditor's report, citing the ongoing impacts of the Covid-19 pandemic as a key factor causing delay.

The Committee agreed that the Chair would write to the Auditor General to convey HIE's concerns, noting that the proposed timetable would deny the Scottish Parliament's Economy and Fair Work Committee the opportunity to examine HIE's accounts in advance of a planned evidence session with Scotland's enterprise agencies in September 2022. Audit Scotland indicated that they would contact the Scottish Government and the committee clerk in the Scottish Parliament to explain their approach and the timescale.

The Audit Director, Performance Audit and Best Value, Audit Scotland confirmed that he understood the concerns, noting that he will come back to the Committee on anything that Audit Scotland can do to mitigate the concerns of others.

### **3.2 Annual report and accounts improvement plan**

#### **3.2a Lessons learned from 2020/21 accounts process**

The Committee welcomed a report summarising lessons learned from the process to compile and audit HIE's 2020/21 accounts, including an action plan to inform an effective process for the forthcoming 2021/22 accounts.

#### **3.2b Annual accounts planning and timetable for 2021/22**

The planned timetable for preparation, audit and sign off of HIE's 2021/22 annual report and accounts was noted, along with indicative dates for subsidiary audits for Wave Energy Scotland, Orkney Research and Innovation Campus, HIE Ventures Ltd and Cairngorm Mountain (Scotland) Ltd.

### **3.3 Approach to expenditure reviews for 2021/22**

This BIIA team outlined their planned approach to undertake expenditure reviews for financial year 2021/22. The team's review work would allow HIE's Finance team to adjust the accounts as required prior to finalisation and the approach this year would take into account the changing profile of expenditure, other assurance activity in-year (including audits) and areas considered to be of highest risk.

The Committee were content with the proposed approach, noting that the final list of payments to be reviewed would be agreed with the HIE Chief Executive and the Director of Finance and Corporate Services following the end of the financial year.

### **3.4 Approach to annual assurance for 2021/22**

The BIIA team described the approach that was planned to be taken to assess the effectiveness in financial year 2021/22 of the internal control environment for HIE, group companies and key projects. The proposed approach covered: the environment within which HIE is operating; in-year changes to processes, procedures and legislative requirements; questions included in Scottish Public Finance Manual, and areas of highest risk. The approach would be similar to that taken in 2020/21, with some questions added or amended to reflect lessons learned.

The Committee noted and welcomed this approach to annual assurance.

### **3.5 Standards Commission – Code of Conduct update**

The Director of BIIA informed the Committee that HIE was required to update its Code of Conduct for Board Members, and to agree its revised code with the Scottish Government by 10 June 2022. This followed revisions that had been made to the Model Code, which is approved by the Scottish Parliament, and to which the HIE Code of Conduct must align.

The Committee identified several areas for further discussion with the Scottish Government and the Standards Commission prior to HIE adopting the code. These concerned wording and guidance relating to contracts; appointments to outside organisations, and the use of dispensations. It was also agreed that HIE staff would make enquiries as to whether the Scottish Government and/or Standards Commission were intending to offer training on the new Code to Board members.

Following these discussions, a further paper should be considered by the full HIE Board at its next meeting, on 26 April.

## **4** **PLANNED ACTIVITY** **GNÌOMHACHDAN PLANAICHTE**

### **4.1 Assurance plan progress update to end January 2022**

The Director of BIIA presented a paper summarising progress against HIE's 2021/22 assurance plan, covering activity in the period 1 November 2021 to 31 January 2022. The paper also included a review of the updated HIE risk register to ensure the highest risk areas were being considered; detailed performance against KPIs, and highlighted findings and conclusions from assurance reports. Outputs to date of were listed, along with a summary of fraud and security incident investigations, including providing updates on previously reported investigations.

The Committee welcomed the progress that had been made, with the plan largely on track. It was recognised that the internal resource was insufficient to deliver the annual assurance plan unaided and members were pleased to note that a contract to support HIE's internal audit requirements from January 2022 had been awarded following procurement. A tender for IS audit support had also been issued, with a view to a new contract starting from 1 April 2022.

### **4.2 Risk register at February 2022**

The Committee noted the current corporate risk register, noting that this had been refreshed significantly to address points raised at previous meetings of the Committee and the full Board.

It was noted that a specific risk register relating to the present war in Ukraine was being prepared, due to the wide-ranging set of challenges that the conflict would bring to businesses operating in the Highlands and Islands and to the regional economy more widely. A cross-organisational task group had also been put in place to ensure alignment with UK and Scottish Government policy and with partner agencies.

### **4.3 Investment portfolio update**

*Jeff Foot joined the meeting.*

HIE's Head of Investment presented a review of the organisation's investment portfolio, incorporating shareholdings, loans and HIE Ventures Ltd.

Highlights included the redemption by Balcas Ltd of HIE shares in the company before its sale to Glennon Brothers Ltd, and a loan of £250,000 being awarded to Glencoe Mountain Ltd. *[Sentence removed in the interests of the effective conduct of public affairs].*

Otherwise, activity continued to be focused on reviewing requests for rescheduling of loans, as a follow-on impact from Covid and the disruption caused by the pandemic.

The Committee was pleased to note that refreshed processes for handling loans and training of a group of loan experts were being incorporated with due diligence training led by the Process Change Group. Revised policy guidance would also support staff to consider when it was most appropriate to use loans and other financial instruments.

The anticipated impact on businesses' cashflow of Covid recovery loans backed by British Business Bank had yet to materialise. However, the level of proposals for capital development projects was not high, suggesting that many growth plans may be on hold. Conversely, demand for equity investment in Scotland had risen to record levels according to published data, with a small number of companies in the Highlands and Islands being beneficiaries of investment from business angel groups.

It was noted that the review of HIE's approach to using Financial Transactions funds for loans could lead to some projects being awarded loan funding that previously could have received grants, although the level of such activity was hard to predict.

The Committee welcomed the paper, in particular the successful exit from Balcas Ltd and HIE's intention to adopt an intervention approach which would optimises the use of a range of interventions including loans and grants.

*Jeff Foot left the meeting.*

#### **4.4 Write-offs**

*Emma Stevenson joined the meeting.*

The Committee received a summary of historic debts for which recovery was now unachievable despite best efforts, and which now required to be formally written off. These write-offs had been considered by HIE's Leadership Team, which had approved the approach being taken for each one, on 7 March 2022, and were now being presented to the Risk and Assurance Committee for review prior to being put before the full HIE Board in April.

It was noted that there would be no adverse effect on HIE's 2021/22 out-turn, as any impact on the resource budget would be offset by the provision release relating to the sale of HIE's shares in Balcas Ltd. Each write-off summary included a section on lessons learned and the Committee stressed the importance of understanding these lessons and ensuring they were applied in future.

*Emma Stevenson left the meeting.*

#### **4.5 Any other business**

There was no other business.

#### **4.6 Date of next meeting**

The next meeting of the committee will be held on Tuesday 7 June.

## **5 ITEMS FOR INFORMATION** **CUSPAIREAN AIRSON FIOSRACHADH**

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

#### **5.2 Spend on internal audit support**

This report was noted by the Committee.

15 March 2022