

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

MINUTE OF THE MEETING HELD ON 17 SEPTEMBER 2024 AT 0900 AT AN LÒCHRAN, INVERNESS CAMPUS, AND BY TELECONFERENCE

PRESENT (ONLINE): Angus Campbell (*Chair*)
Calum Ross
Keith Nicholson
Allan Clow

IN ATTENDANCE (AN LÒCHRAN):

Stuart Black	Chief Executive
Sandra Dunbar	Director of Business Improvement and Internal Audit
Nick Kenton	Director of Finance and Corporate Services
Louise Macmillan	Audit and Assurance Manager
Elaine Hanton	Senior Project Lead, item 2.2
Andrew Jenkins	Head of Financial Services, items 2.3, 3.1 and 3.2
James Laraway	Business Improvement Manager, item 4.4

IN ATTENDANCE (ONLINE):

Kyle McAulay	Senior 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
Eunice McAdam	Partner, Saffery, item 3.3
Alex MacIver	Information Systems Manager, item 4.6

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting noting that apologies had been received from Pauline Gillen, Audit Director, Audit Scotland.

1.2 Declarations of interest

Committee member Keith Nicholson made a transparency statement to record that with effect from 16 September 2024, CMAL had become a client of Cyber Security Scotland. The Director of Finance and Corporate Services made a transparency statement noting that he is a Director of HIE Ventures Ltd which is on the agenda at item 3.3b related to the annual accounts.

1.3 To approve minute of the Risk and Assurance Committee meetings held on 4 June 2024

The minutes of the meeting held on 4 June 2024 were approved.

1.4 Matters arising from the Risk and Assurance Committee meeting of 14 March 2024

All other matters arising are covered on the meeting agenda or have been covered by updates to members between meetings.

1.5 Matters arising from the HIE Board meeting held on 22 April 2024

There were no other matters arising from the meeting held on 22 April 2024.

2 CURRENT AND EMERGING ISSUES **CÙISEAN LÀITHEIL**

2.1 ERDF claims update

David Hamilton joined the meeting.

The EU Funding Manager provided an update on the ERDF situation, *[part of sentence removed in the interests of the effective conduct of public affairs]*. HIE has been audited on a number of programmes and have responded to all requests for information in detail. *[Sentences removed in the interests of the effective conduct of public affairs]*.

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

It was noted that HIE had submitted a further appeal relating to the Creative Industries Network Conference programme, but this had not been successful and £647k will require to be repaid.

Final claims have been processed are now the subject of audit review by Scottish Government this is likely to be a lengthy process but it is expected that the exercise would be completed by the end of September.

[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].

The Chair asked for confirmation that in terms of the annual accounts for the year, that the Scottish Government were providing support for the Creative Industries clawback. The Director of Finance and Corporate Services confirmed that the clawback would score against Resource in the 2023/24 accounts and that permission had been received from Scottish Government for an authorised overspend to cover the impact of this.

The Committee noted the update *[part of sentence removed due to Data Protection]*.

David Hamilton left the meeting.

2.2 Cairngorm Update

Elaine Hanton joined the meeting.

The Senior Project Lead provided an update on the funicular railway noting that works are ongoing with an expected completion date around the end of October, although weather conditions have caused some delays. This will still allow time to get the recommissioning, safety checks and training completed and get the Health and Safety Executive (HSE) to a position where they would allow a return to service before the winter season.

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

The planned replacement of the funicular carriage bogeys by specialist sub-contractor Garaventa commenced on 16 September and these works should take two weeks to complete.

[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].

Susan Smith, the Chief Executive of Cairngorm Mountain Scotland Limited is due to step down at the end of September with Tim Hurst, Managing Director of HIE Subsidiary Wave Energy Scotland (WES) stepping in on an interim and part time basis until the end of March 2025. Two existing staff within CMSL are going to step up to strengthen the internal team. One CMSL Board member is due to step down at the end of September with the other members agreeing to stay on until September/October next year with new members being recruited in an open basis. In advance of that, it has been agreed with the CMSL Chair that one additional member should be sought now.

The overall project risk remains high until such time as the funicular is back in service.

The Committee welcomed the update, recognising the complexity, time consuming nature and the level of scrutiny of the project and noting that if the funicular is back in service by the winter season, this would be a huge achievement.

Elaine Hanton left the meeting.

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

3 ACCOUNTS RELATED
STUTHAN CUNNTASACHAIL

3.1 Annual accounts timetable update

The Head of Financial Services provided a short update, confirming that the annual accounts were delivered to Audit Scotland on 2 September 2024 as agreed in the timetable. The audit has now commenced and the first matters arising meeting has been held with the Audit team with no significant issues raised at this point. Some points have been raised by Audit Scotland that will require further investigation and internal discussion.

In relation to the subsidiary accounts, most have now been approved by the boards and are ready for signing. The only one that is still outstanding is HIE Ventures Ltd, with the board meeting on 18 September 2024.

The Senior Manager, Audit Scotland updated that there have been no major issues coming out of the audit to date. A couple of points had come out of the first matters arising meeting in terms of presentation and classification and he confirmed that they are on track to bring the independent auditors report and annual audit report to the Committee on the 19 November 2024.

The Committee noted the update.

3.2 HIE unaudited report and accounts 2023/24

The Director of Finance and Corporate Services highlighted that this was the unaudited report and accounts for 2023/24 for issuing to Audit Scotland and comments from Committee members are welcome. This will be considered as part of the process to arrive at the final audited version and will be required by the end of September. There will be some changes to the accounts as a result of the audit process and an opportunity to factor in any comments. Leadership Team has reviewed the paper in detail as has the Chair of the Board and Scottish Government policy leads. Areas to update on are as follows:

There is an underspend on capital of £5.7m which is more than was included in the initial draft outturn paper to the HIE Board in April when the figure was stated as £5.2m. The reason being that there were two IRFS 16 leases which were not concluded prior to the year end and did not require to be capitalised. There has been no liability or contingent liability in relation to the funicular remediation but this will be kept under review until the conclusion of the accounts.

On revenue resource, at time of reporting the initial draft outturn to the Board, this was £240k under budget and is now £400k over, the reason being the write off of the ERDF claim which is an authorised overspend covered by a letter from the Scottish Government. Financial Transactions (FTs) were showing an authorised overspend of £300k, this is now £400k due to the phasing of FT income and some interest being capitalised.

In relation to the balance sheet, this shows parity compared to previous deficits, this is despite the fact that the HIE pension scheme deteriorated by £7.0m in year on an IAS 19 accounting standard basis. The Head of Financial Services drew the Committees attention and provided an update on the losses and claims due to this being quite large this year,

The Committee noted the annual report and the positive contribution made by HIE during the year and asked whether a summary could be produced for distribution. The Chief Executive confirmed that summary results had already been published by HIE after the year end and a summary of the outturn was also produced for HIE's appearance before the Economy and Fair Work Committee on 11 September which would be shared with Committee members.

3.3 Group companies accounts and audit reports 2023/24

3.3a Cairngorm Mountain (Scotland) Ltd

3.3b HIE Ventures Ltd

3.3c Orkney Research and Innovation Campus LLP

3.3d Wave Energy Scotland Ltd

Eunice McAdam joined the meeting.

The Partner from Saffery, Ms McAdam, outlined that she would cover all items under item 3.3 together, providing an overview of the audit and group reporting for HIE Ventures Ltd, Wave Energy Scotland (WES), Orkney Research and Innovation Campus LLP (ORIC), and Cairngorm Mountain (Scotland) Ltd (CMSL). The audits are nearly complete, with final accounts issued for approval and signing and copies of the final closing reports issued. These will be signed once the appropriate Board meeting has taken place. The audits progressed as planned, with no significant deviations or reassessments needed and four unmodified opinions.

With regards to significant risks identified at planning stage, the first three relate to all four companies with the final one specific to Orkney Research and Innovation Campus LLP.

- 1) Risk of Management Override: No issues were found in areas open to bias or manipulation by management.
- 2) Revenue Recognition: Substantive testing on income recognised in the statements showed no issues.
- 3) Going Concern: No material uncertainties were found. The area that took most focus this year was and the impact on CMSL projections relating to the potential reopening of the funicular.
- 4) Property Valuation for ORIC: Because the property is treated as an investment property, it's held at fair value in the balance sheet. An external valuation increased the property value by £50k.

In relation to the risk areas, nothing of any particular importance or concern required to be brought to the attention of the Committee. In terms of audit errors both adjusted and unadjusted, there are no material unadjusted errors remaining.

There was one material journal processed in Wave Energy Scotland Ltd which related to exchange rate conversion of a foreign grant at the year end and that had an impact of £315k which has been processed and included in the updated consolidation pack.

The Committee also asked if the ORIC asset revaluation is something that needs to be done every year for the accounts. Ms McAdam confirmed that the accounting standards require the building to be carried at fair value every year. While it doesn't mandate an external valuation every year, management has chosen to obtain one annually.

The Committee noted the update.

Eunice McAdam and Andrew Jenkins left the meeting.

3.4 BIIA report – Composite significant transactions 2023/24

The Audit and Assurance Manager outlined that the report covers the review of significant transactions across HIE during the year and highlights any issues for the accounts, any areas of good practice and lessons learnt. There was nothing identified that would impact on the accounts, with 22 reviews undertaken. One provided limited assurance with the others providing substantial or reasonable assurance. There were a number of lessons learnt and improvement opportunities identified which will be built into the knowledge sharing and lessons learnt programme to make sure these messages are communicated to staff.

The Director of BIIA highlighted the significant percentage of HIE expenditure covered and noted that Audit Scotland were looking to rely on this work for their annual audit. The Senior Manager, Audit Scotland, confirmed that reperformance work of the significant transactions testing is ongoing and this is being undertaken in conjunction with top up testing of the year end expenditure. To date there have been no issues identified and work is ongoing with the aim of concluding within the next couple of weeks.

The Committee noted the update, acknowledging the significant amount of work both in terms of the actual volume of checking and then getting lessons learnt communicated out to the organisation. The Committee also asked if the profile of expenditure towards the final period of the year put additional pressure on the audit team including the work with partner organisations. The Director of BIIA explained that the pressure is not just on the audit team but across the organisation. If the volume of expenditure could be spread across the year and not the final period, that would relieve the overall pressure and is something that Leadership Team have been discussing. With regards partnership projects, there is a huge opportunity for HIE to either deliver directly or to be a real enabler of projects. Some of the lessons learnt work, has assisted in areas such as joint due diligence and joint legal agreements which not only help partners but help the projects and deliver cost efficiencies.

4 PLANNED ACTIVITY

GNÌOMHACHDAN PLANAICHTÈ

4.1 Assurance progress report 1 April to 31 August 2024

The Audit and Assurance Manager presented a report of progress against the assurance plan for 2024/25, to the end of August 2024. The focus has been on undertaking the activity for the annual accounts process such as the annual assurance and the significant transactions work. All of the lessons learnt are being gathered and will feed into the programme for knowledge sharing.

Some key governance policies have been reviewed and updated in line with the agreed plan, including conflict of interest policy and Board standing orders. Lessons learnt and knowledge sharing activity has taken place, including webinars delivered by HIE staff and a session with HIE’s external legal agents. Updates have also been provided to colleagues on specific project activity, other income, including in regular process compliance and knowledge sharing updates. One complaint was received in period and following review was not upheld.

Internal Audit priorities for the next quarter will be taking forward work *[part of sentence removed in the interests of the effective conduct of public affairs]*, other income reviews updates to Delegated authorities and continued knowledge sharing.

The Committee noted the update.

4.2 Internal audit improvement plan update

The Audit and Assurance Manager provided an update on the implementation of actions included in the internal audit improvement plan. This was agreed as part of the conclusion of the internal audit external quality review against the requirements of the Public Sector Internal Audit Standards (PSIAS).

All items due in March or June 2024 are complete, two items are ongoing and three items are due to complete by end of March 2025. Two relate to a review of the Internal Audit Manual which has commenced. A further update will be provided on these actions in due course.

The Committee asked a question about internal audit independence and how this would be dealt with when the Director of Finance and Corporate Services leaves and the Director of BIIA takes responsibility for this area of work. The Director of BIIA confirmed that this had been discussed at the outset of the proposed changes and that the role of the Audit and Assurance Manager would be reinforced. The team would also have access to external independent audit functions such as the Information Systems audits commissioned jointly with Scottish Enterprise, South of Scotland Enterprise and Skills Development Scotland.

The Committee noted the update and the importance of being clear on how audit independence is achieved.

4.3 National Fraud Initiative – planning and approach

The Audit and Assurance Manager provided an overview of the National Fraud Initiative (NFI). Every two years, Audit Scotland leads a counter-fraud exercise working together with a range of Scottish public bodies to identify fraud and error. HIE is a mandatory participant, and the exercise is overseen by the Public Sector Fraud Authority, which conducts the exercise across the whole of the UK. HIE is committed to taking part in this exercise which is in addition to the continued and active approach to awareness raising, including regular communications and updates to staff and delivery of webinars.

Recommendations were made by Audit Scotland in its report for the 2022/23 exercise and HIE will ensure these are covered as part of the 2024/25 exercise. The exercise is currently on track and appropriate action will be taken in line with the timetable provided by Audit Scotland. Matches will be released just before Christmas and once received, an appropriate sample for follow up will be agreed. Any significant control issues identified through the follow up will be addressed immediately, in line with normal HIE process.

The Committee asked what methodology was used to identify anomalies. The Audit and Assurance Manager confirmed that data uploaded relates to creditors standing data, creditor history and payroll. The exercise will look at common fields within HIE data, such as supplier names, addresses, invoice numbers and identify any areas which require further investigation. The payroll data is also compared to other public sector organisations uploaded data. A summary report will be brought to the Committee once the exercise has concluded.

The Committee noted the update.

4.4 Risk Register

James Laraway joined the meeting.

The Director of BIIA provided a brief introduction highlighting that the register is the same one which was considered by the HIE Board at their meeting on 27 August 2024. The highlighted changes in the paper represent those changes made since the risk register was last presented to the HIE Board on 25 June. In summary, the main changes are that two new corporate risks have been added to the register, 1) Lewis – local economic impact and 2) Best Value and Public Service Reform. One risk in relation to Organisational Delivery has been removed from the corporate register. *[Sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].*

One risk not on this register is a new risk in relation to the Director of Finance and Corporate Services deciding to leave HIE. This is an organisational risk and the Chief Executive has been active in ensuring there is an understanding of the risk and taking mitigating actions.

The Committee highlighted that the addition of the new risks and in particular the Lewis local economic impact risk, demonstrates that this is a live document with awareness of the environment. It is a good example of where HIE is with this process and demonstrates that these issues are being picked-up and reported on.

James Laraway left the meeting.

4.5 Best Value and Public Service Reform update

The Director of BIIA presented a paper on Best Value and Public Service Reform noting that the author of the paper (Head of Business Transformation) was unable to attend the meeting. A Best Value plan for 2024/25 has been prepared building on the previous year's plan, refining and amending for current organisational opportunities and challenges. The plan is aligned to the best value characteristics and the public service reform agenda.

The Best Value annual report had been provided to the Committee at their last meeting. This had covered the activities around our priority themes and noted that we would move into a more target oriented approach. Initial targets have been prepared and agreed with leadership team. These have a particular focus on customer engagement and improving how HIE engages efficiently with clients. The targets will be monitored and the Chief Executive will use this as a reference point during the quarterly reviews held with each business unit.

One area to highlight is in relation to fiscal efficiency. Specific targets have not been set but specific adjustments have been made to ensure HIE is operating within budget reductions. Deliberate changes to our approach and delivery methodologies have been made in key areas and through the Workforce Planning group there is active management of our people resources.

We also have strategies for income generation directly to HIE and to our partners and clients and we record the valuable contribution that our staff make in supporting that activity. Where previously we might have just been a grant funder, we are increasingly making sure we are equipping our staff with the skills to help clients and partners to bring other income into projects.

It was also noted that the leadership team have agreed an updated resource prioritisation set of principles and an intervention framework that helps staff translate the strategy into how we make decisions on the ground and apply our resources.

The Committee noted the good report and that targets were being put around customer engagement and this was being measured. *[Sentences removed in the interests of the effective conduct of public affairs].*

The Committee noted the update.

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

4.7 RAC development programme (verbal)

The Audit and Assurance Manager updated the committee that an annual review was undertaken to review the effectiveness of the Committee. This is normally done by way of a questionnaire and circulated to members. It was agreed that this would be undertaken and reported to the November meeting to highlight any improvement areas. There was also a request for Committee members to provide suggestions on any areas for development that they would like covered and this could then be organised. Any suggestions to be provided to the Chair or to the Director of BIIA.

4.8 Any Other Business

There was no other business.

4.9 Date of next meeting

The next meeting of the Risk and Assurance Committee will take place on 19 November 2024.

Adrian Kitson
Head of Executive Office
17 September 2024

APPROVED