

RISK AND ASSURANCE COMMITTEE
COMATAIDH CHUNNART AGUS SGRÙDAIDH

MINUTE OF THE MEETING HELD ON 11 OCTOBER 2023 AT 1400 AT AN LÒCHRAN, INVERNESS CAMPUS, AND BY TELECONFERENCE

PRESENT (ONLINE): Angus Campbell (*Chair*)
Belinda Oldfield
Calum Ross
Keith Nicholson

IN ATTENDANCE (AN LÒCHRAN):

Sandra Dunbar Director of Business Improvement and Internal Audit (BIIA)
Louise Macmillan Audit and Assurance Manager

IN ATTENDANCE (ONLINE):

Stuart Black Chief Executive
Nick Kenton Director of Finance and Corporate Services
Pauline Gillen Audit Director, Audit Scotland
Andrew Jenkins Head of Financial Services
Andrew Carton Team Leader of Sponsorship, Scottish Government
Adrian Kitson Head of Executive Office

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting and confirmed that no apologies had been received.

1.2 Declarations of interest

There were no declarations of interest.

1.3 Verbal update on meeting of 3 October 2023

The Director of BIIA provided a brief verbal update highlighting the items that had been discussed.

The Chair thanked the Director for the update noting that the minutes would be presented for formal approval at the next meeting of the Committee.

2.1 Audit Scotland Annual Report for 2022/23

2.1a – Audit Scotland covering letter, proposed independent auditor’s report and management letter of representation

The Audit Director, Audit Scotland drew the Committee’s attention to the covering letter which is addressed to this Committee as those charged with governance under ISA 260. The most important area to point out is in paragraph one where it confirms that the audit work on the accounts is now substantially complete and to confirm that Audit Scotland will be providing a clean, unqualified audit opinion on the accounts and will sign either today or tomorrow once the Chief Executive as Accountable Officer has signed the accounts.

It was noted that the outstanding matter relating to a letter from Scottish Government confirming authorisation of an in year overspend had now been addressed.

Under ISA 260, the Audit Director is required to bring to the Committee’s attention any significant findings or matters arising from the audit work. These will be covered in more detail later under the annual audit report.

There is also a requirement to report any unadjusted misstatements identified as part of the audit and not adjusted in the accounts and that exceed the reporting threshold of £80k. It was confirmed that there are no unadjusted misstatements to report.

There is also a requirement to ask the Committee to confirm that they are not aware of any actual, suspected or alleged frauds, any events after the statement of financial position date or non-compliance of laws or regulations affecting Highlands and Islands Enterprise that need to be brought to the Audit Director’s attention. A short pause was taken to allow the Committee to bring any issues to her attention, the Committee confirmed there were none.

The Audit Director then outlined Appendix A which is the proposed Independent Auditor’s Report which has now been placed in the final revised version of the accounts and follows a similar format to previous years. Also included at Appendix B is the template of the letter of management representation under ISA 580 that will be signed by the Chief Executive as Accountable Officer at the same time the accounts are signed which provides a range of management assurances to the appointed auditor.

2.1b – Draft annual audit report

The Audit Director confirmed that the report summarises the key findings and messages from the work carried out on the 2022/23 annual report and accounts.

Attention was drawn to the significant finding from the work this year, this included asset recognition and accounting treatment for pensions and changes in the accounting treatment relating to leases as a result of a new accounting standard. These were themes where issues were also being experienced across the public sector. Other issues noted were technical accounting points arising from the treatment of non-current assets, accounting for dilapidations and accounting for third party balances.

It was noted that appropriate adjustments have now been made to the accounts and the figures are accurately stated and a number of recommendations have been included and agreed in the final report.

The Director noted that the number of ISA 260 points as outlined were partly the reason why the audit completion was later this year. It was important that HIE and Audit Scotland had time to consider these and for Audit Scotland to confirm that all adjustments have been made accurately.

Exhibit 3 outlines the significant risk of material misstatement. It was noted that there were no instances of management override to bring to the attention of the Committee.

There were two areas of focus relating to the level of estimation and judgement relating to the valuation of land and buildings and the valuation of the pension liability or asset. Audit Scotland recognises the reliance and input from experts in both of these areas.

In the last two years there has been no interim report on internal controls, but there is now a report by exception which is an ISA requirement. Two points arose from the testing of the internal controls, one in relation to the fixed asset register and the impairment of non-current assets and also in relation to the authorisation of journals and segregation of duties. Further testing of journals was undertaken and there were no issues identified.

Two high level areas were added for coverage by the audit this year; these were climate change and cyber security with actions on these included in the report.

Finally, the follow-up of prior year recommendations, four have been completed and can be removed and two have been superseded.

The Audit Director thanked the Director of Finance and Corporate Services, the Head of Financial Services and the Director of Business Improvement and Internal Audit and their teams for all of the help provided in getting to this point in what has been the first year of the appointment round on what was a technically challenging audit.

The Chair noted the thanks to the team in HIE and Audit Scotland. The timing issues relating to the finalisation of the accounts were discussed. It was disappointing that there was not earlier awareness within HIE of potential issues and it was agreed there was a need to learn lessons.

2.2 HIE Annual Report and Accounts 2022/23

The Director of Finance and Corporate Services highlighted that he would run through the adjustments between the draft accounts presented to the Committee in August and the final version presented now with the Head of Financial Services making comment on the context for the adjustments.

The Director thanked the Audit Director and her team for their work on the accounts which was a tricky process this year and it was good to see a regular presence on site which was very helpful. There are some lessons that can be learned from that to gain greater advantage from this in the future. The Director noted that the un-modified opinion is welcome, and drew attention to the series of findings noting that these arose from isolated issues and did not reflect systematic errors. The main theme of the findings centre around capital accounting and how items are treated in the statement of financial position (balance sheet). To assure the Committee, these issues are taken very seriously, there were issues with capital accounting three years ago and since then the number of issues identified had reduced so it was very disappointing to see the number going back up again this year.

There were mitigating circumstances as mentioned by the Audit Director in relation to the treatment of pension funds and lack of clarity on how to deal with a surplus. Another issue not mentioned was that HIE has just finished consolidating all of the LGPS schemes into one scheme (the Highland scheme) which has had a positive impact on reducing the risk on the LGPS position, but impacted on timing.

The Head of Financial Services noted that much of the context had been covered earlier in the meeting and he would not cover that again and provided an update on other adjustments.

It was noted that the revaluation of property and specialist assets accounting treatment had been discussed at length with the previous audit team and felt that there was an agreed process. It has however been accepted that this has now become material and it is accepted that the approach to this needs to be reviewed.

The treatment of dilapidations was due to misinterpretation of advice and the treatment of the Third Party balance in the HIE bank account was an oversight.

In the annual accounts' context paper, tables have been provided to show how this has affected the year end outturn and the accounts.

The Chair noted that a debrief would be useful and asked the Chief Executive as Accountable Officer if he was content with the final position. The Chief Executive confirmed he was content and would be signing the documents later today.

The Director of BIIA confirmed that over the last two years there had been a lessons learned exercise undertaken with feedback provided to the Committee and this will be undertaken again this year.

The Head of Financial Services requested formal approval from the Risk and Assurance Committee on behalf of the Board, that the accounts had been approved. The Committee confirmed formal approval.

2.3 Proposed final certificate of assurance for 2022/23

The Compliance and Risk Manager noted that the interim certificate had been submitted to Scottish Government Sponsorship Team and there was now a requirement to provide the final certificate to align with when the accounts are finalised. The certificate had been updated to remove reference to EU funding, but risks relating to future revenue implications associated with Financial Transactions was added.

The Committee and the Chief Executive as Accountable Officer confirmed that they were content for this to be submitted to Sponsor Team.

3 PLANNED ACTIVITY GNÌOMHACHDAN PLANAICHTE

3.1 Any other business

There was no other business.

3.2 Date of next meeting

The date of the next meeting is 9:00am on 5 December 2023.

Adrian Kitson
Head of Executive Office
11 October 2023