

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

**MINUTE OF THE MEETING HELD ON 14 MARCH 2024 AT 0900 AT AN LÒCHRAN, INVERNESS CAMPUS,  
AND BY TELECONFERENCE**

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

**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
Dave MacLeod	Head of Property and Infrastructure, item 2.4

**IN ATTENDANCE (ONLINE):**

Pauline Gillen	Audit Director, Audit Scotland
Kara Brown	Senior Auditor, Audit Scotland
Andrew Carton	Team Leader of Sponsorship, Scottish Government
Adrian Kitson	Head of Executive Office
Elaine Hanton	Senior Project Lead, item 2.4
David Hamilton	EU Funding Manager, item 2.1
Graeme Harrison	Area Manager Orkney, item 2.2
Harvey Stevenson	Head of Strategic Projects Orkney, item 2.2
Andrew Jenkins	Head of Financial Services, item 2.3, 3.2 and 4.6

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

**1.1 Welcome and apologies**

The Chair welcomed everyone to the meeting, noting apologies from Keith Nicholson.

**1.2 Declarations of interest**

Board member Belinda Oldfield provided a transparency statement to note that she is a Non Executive Member of Scottish Government Corporate Board noting that there was no direct conflict of interest in relation to any of the papers to be discussed. The Chair of the Committee also made a transparency statement about his role in UHI and the UHI Court noting that there was no direct conflict of interest in relation to any of the papers to be discussed. Board member Calum Ross also made a transparency statement in relation to him being a member of the UHI Court noting that there was no direct conflict of interest in relation to any of the papers to be discussed.

### **1.3 To approve minute of the Risk and Assurance Committee meetings held on 5 December 2023**

*Nick Kenton joined the meeting.*

The minutes of the meeting held on 5 December 2023 were approved with one minor factual amendment to be made to item 4.8.

### **1.4 Matters arising from the Risk and Assurance Committee meeting of 5 December 2023**

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

### **1.5 Matters arising from the HIE Board meetings held on 12 December 2023 and 27 February 2024**

The Chair noted that the Board had asked that the Committee review lessons from MacMillan Distilleries and the closure of CS Wind. *[Sentence removed in the interests of the effective conducts of public affairs, and due to commercial sensitivity]*. The Board also considered a paper on a second tranche of funding to MacMillan Distillery. It was agreed that a paper on HIE's approach to lessons learned covering major projects would be prepared. It was proposed that this be taken to the next Committee meeting in June. The Committee agreed to this proposal.

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

To assist with staff availability, it was agreed the item 2.4 – Cairngorm update would be taken first. For the purposes of the minute, the items will remain in numerical order and as they appear on the meeting agenda.

### **2.1 ERDF claims update**

*David Hamilton joined the meeting.*

The Director of Business Improvement and Internal Audit presented a paper which is one of a number of regular update papers that have been presented to the Committee over the last few years on ERDF. *[Sentences removed in the interests of the effective conducts of public affairs, and due to commercial sensitivity]*.

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

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

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

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

The Committee noted the update.

*David Hamilton left the meeting.*

### **2.2 Orkney Research and Innovation Campus (ORIC) update**

*Graeme Harrison and Harvey Stevenson joined the meeting.*

The Head of Strategic Projects provided an update on the progress relating to the delivery of the Orkney Research and Innovation Campus LLP (ORIC) project. *[Sentences removed in the interests of the effective conducts of public affairs, and due to commercial sensitivity].*

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

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

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

The Committee welcomed the update and noted that further reports would be made to the Board and the Committee as the project progresses.

*Graeme Harrison and Harvey Stevenson left the meeting.*

### **2.3 Enterprise Resource Planning (ERP) project update**

*Andrew Jenkins joined the meeting.*

The Director of Finance and Corporate Services as SRO for the ERP Project provided an update on the current status of the ERP project. Highlighting that a note had been circulated from Committee member Keith Nicholson, the Director confirmed that in the interest of time, he would not address all of the points raised however there are three summary points that will be covered. *[Sentences removed in the interests of the effective conducts of public affairs].*

The project is currently in the alignment phase which is a crucial part of the project where HIE specifies exactly what it requires from the system. There has been good engagement with colleagues around the organisation with lots of opportunities identified to improve processes, this however has resulted in a need for more time for the alignment phase with a request made to the Project Board with a recommendation to extend this to the end of April from end March. This does impact on the go-live date with the best estimate now being October which is during the final accounts timetable but there are measures in place to mitigate the impact of this.

Moving to the three issues raised by Committee member Keith Nicholson:

1. Provision of standard project documentation. The Director confirmed that HIE does have this and it was a matter of judgement in terms of what level of detail was provided in the Committee meeting pack.
2. Action plan if September date missed with an updated cost profile. *[Sentence removed in the interests of the effective conducts of public affairs].* The timetable is regularly reviewed and the go-live date will be revisited at the end of the alignment phase. There is significant focus on hitting the go-live as timeously as possible.
3. *[Sentence removed in the interests of the effective conducts of public affairs].*

The Chair noted Keith's valuable input which he had asked to be shared with members and noted that the Director would respond separately on these points with other being picked-up with questions from other Committee members.

The Committee through questioning covered a number of areas including Resource, timetable, annual accounts timetable, Finance team priorities and prioritisation. The Director confirmed that the Finance team's resources are being managed very closely to ensure we can continue to progress the project at the same time as delivering on the 31 March year end and then the final accounts timetable.

The Committee further asked about progress with the chart of accounts and if this was in place. The Head of Financial Services confirmed that this was in hand and expected to be complete by the end of April. It was also mentioned that future Committee meetings would like detail of the go-live criteria to provide assurance of progress towards meeting this date.

The Committee asked Audit Scotland if they were confident that the project is not going to cause a hold up in in the process of auditing the accounts. The Audit Director, Audit Scotland recognises this as a huge and complex project but have taken assurance from the detailed project plan that is in place. It has been agreed not to bring the timetable back in line with pre-Covid but for this year and that it would remain the same as last year to accommodate the needs of the finance team to focus on this important project.

The Committee noted and recognised the timescale and the effort required for this project and that an update would be provided at the next meeting.

*Andrew Jenkins left the meeting.*

## **2.4 Cairngorm update**

*Dave MacLeod and Elaine Hanton joined the meeting.*

The Head of Property and Infrastructure updated the Committee in relation to the ongoing issues with the funicular and actions being taken. *[Sentences removed in the interests of the effective conducts of public affairs, and due to commercial sensitivity].*

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

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The Committee noted the position and welcomed the actions being taken by HIE staff to deal with this complex issue. It was noted that the Cairngorm Sub-group had been reestablished to support this work.

*Dave MacLeod and Elaine Hanton left the meeting.*

### **3 ACCOUNTS RELATED**

#### **STUTHAN CUNNTASACHAIL**

#### **3.1 Audit Scotland 2023/24 annual audit plan and fee**

The Audit Director, Audit Scotland provided an update to the Committee on the 2023/24 annual audit plan noting that the Committee will have read the report the Director highlighted some areas for attention. These included the following:

- 1)** the materiality levels that will apply for the audit of the financial statements which are very similar to last year calculated for both a single entity and also for the group accounts and it's based on 2% of gross expenditure, using the audited figures in the financial statements from last year.
- 2)** The standard significant risks of material misstatement including the risk of material misstatement due to fraud caused by management override of controls and the risk of material misstatement in relation to capital accounting. Following some issues identified last year, the team has already been in discussion with HIE so that any issues can be identified and resolved earlier this year.
- 3)** Under ISA 240 the inherent risk of fraud has to be considered in income revenue and expenditure. It has been outlined that no significant risk of fraud has been identified in those areas therefore there will be no additional audit work other than the work that would be undertaken every year for these two areas.
- 4)** As with previous years, there are two areas of specific audit which are essentially due to the inherent nature of estimation and judgement involved in the valuation of land and buildings and also in pension assets and liabilities. For both of these areas, there is a heavy reliance on the work of management's experts.
- 5)** The ongoing issues with the Cairngorm reinstatement works have been identified as a significant risk in terms of wider audit scope with a high level statement in the plan about additional work that will be done in relation to governance arrangements and any potential financial impact.

It was also outlined that the proposed dates and timetable for the annual accounts process reflect the later dates to accommodate the ERP project implementation by the HIE Finance team.

The Audit Director drew the Committee's attention to the annual audit fee detailed in the plan.

The Committee asked the Director of Finance and Corporate Services if he was comfortable with the material risk identified in relation to capital accounting noting the issues identified in the previous year and the resultant delays caused. The Director noted that there was a lessons learned paper on the

agenda covering this issue and there has been good engagement early on the process this year which will help.

The Committee noted the update and the audit fee of 6.5%, and given the substantial increase last year, they had been anticipating a lower increase this year and asked if this was consistent across public sector audits given the approach to budgets reducing with a larger proportion going to an audit function. The Audit Director confirmed that the percentage increase is standard across all audited bodies.

### **3.2 HIE annual accounts planning and timetable for 2023/24**

The Head of Financial Services presented a paper to the Committee with details the annual accounts timetable and to highlight any significant concerns in relation to the delivery of the annual accounts. The main points are covered are 1) Proposed annual report and accounts timetable, 2) Subsidiary audit timetable, and 3) Change in accounting policy.

Noting a slight variation in dates between the detailed timetable and the Audit Scotland timetable, it was confirmed that the HIE timetable would be aligned with the Audit Scotland dates. The key things to note on the timetable is that HIE still intends to produce the accounts to the statutory deadline of end December. However, an amendment to the proposed timetable had been requested to allow staff time to work on the ERP project between July and September and this has been reflected in the Audit Scotland timetable.

In relation to key accounting changes, there are no significant changes in terms of legislation, however a review has been undertaken on some of the policies and how these will integrate with the new system.

In terms of the subsidiary audits, HIE has engaged with Saffery to undertake them this year and the timetable is broadly similar to last year with the audits taking place through May with the drafts completed and expected in June.

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

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

### **3.3 Approach to expenditure reviews for 2023/24**

The Audit and Assurance Manager provided a brief update on the paper highlighting that this is presented to Committee each year to outline the approach to internal audit review of major expenditure. For 2023/24, reviews will focus on expenditure over £400k up to December and over £200k in the final quarter year. It will also include a sample of projects through the Green Grant fund and the Green Jobs Fund that are due to spend by the end of March. There might be a small extension to the timescale for the fund however the final population will be agreed post year end.

The Committee noted the update.

### **3.4 Approach to annual assurance for 2023/24**

The Audit and Assurance Manager provided an update on the annual assurance approach planned for the 2023/24 year. This will focus on the areas of highest risks. The approach is generally similar to the previous financial year with the addition of seeking specific assurance from other income owners. The

process has also been updated to reflect feedback from Audit Scotland's review last year and making sure any gaps that had been identified are addressed and making sure that lessons have been learned. The final report will be brought back to the Committee in due course.

The Committee noted the update.

**3.5 Lessons learned from 2022/23 accounts process**

The Audit and Assurance Manager updated the Committee that following the annual accounts process last year it was agreed to hold lessons learned sessions with internal HIE colleagues, Audit Scotland and Saffery who carried out the audits of the group companies. The paper presented is a summary of the outcome of these discussions with some opportunities for both improvement and best practice noted and which will be built into processes for this year. The Director of BIIA confirmed that there have been good discussions with Audit Scotland and good communication channels are in place to ensure effective collaboration and best value achieved across the various audit resources. There was also a separate briefing session with Audit Scotland into some of the issues around Cairngorm Mountain and HIE would want to see these continue.

The Committee noted the update and confirmed that they would like to understand HIE's general approach to lessons learned and how these are being recognised and used in the organisation. The Director of BIIA confirmed that a substantive paper on lessons learned would be presented at the next meeting of the Committee covering two broad themes of other income and major projects.

**4 PLANNED ACTIVITY**  
**GNÌOMHACHDAN PLANAICHTÈ**

**4.1 Assurance plan progress report 1 November 2023 to 31 January 2024**

The Audit and Assurance Manager provided an update on the progress against the assurance plan for 2023/24 which was agreed at the June 2023 Committee meeting. This covered details of activity in the period November 2023 to January 2024, the year-to-date position, including outputs delivered, a summary of complaints, fraud or irregularity incidents in year and activity to be carried forward to 2024/25. A significant amount of work has been undertaken by the team to support the EU claims process which has impacted on the amount of overall time available to spend on the assurance work however the team remain comfortable that the bulk of work will be delivered by the end of the financial year.

The Committee noted the update.

**4.2 Audit recommendations follow-up – reports issued 2022/23**

The Audit and Assurance Manager updated the Committee explaining that when audit reports are issued, the recommendations agreed with management are given priorities of high, medium and low. The report is summary of follow-up actions from Audit recommendations and whether they have been implemented or not. It was reported that 86% of all recommendations have been fully implemented, but of the 25 that weren't implemented, fifteen of those were high priority.

This is slightly better performance than has previously been reported and Leadership Team agreed in finalising the report that these should be escalated to the relevant Director would ensure that outstanding recommendations were implemented. It was further confirmed that outstanding recommendations from the previous year have now all been fully implemented.

### **4.3 Internal audit quality review against PSIAS**

#### **4.3a Final Report**

#### **4.3b Improvement Plan**

#### **4.3c Updated Internal Audit Terms of Reference**

Items 4.3a to 4.3c were all covered together with the Audit and Assurance Manager confirmed that there is a requirement to undertake an external quality review of the internal audit function against the Public Sector Internal Audit Standards (PSIAS) and provided a summary of the three papers as follows:

- The first paper is a copy of the independent report which highlighted the internal audit function to generally conform which is the highest possible assessment level with only one criterion that was partially conformed with.
- The second paper is the improvement plan that has been prepared following the final report. This takes the points that have been raised and identifies improvement actions, including for the area that was highlighted as partially conforming.
- The third paper covers areas of the Terms of Reference that required to be updated. These areas have now been updated and an updated Terms of Reference and Charter have been presented for endorsement by the Committee.

The Director of BIIA confirmed that a recurring theme that came through from the audit review was in relation to lessons learned and knowledge sharing. The independent reviewer acknowledged this was an area the organisation was addressing.

The Committee noted the update and approved the Terms of Reference and Charter.

### **4.4 Risk Register, February 2024**

The Director of BIIA provided apologies for the Business Improvement Manager who was unable to attend the meeting and confirmed that she would speak to the next two items. The risk register is the same as the one presented to HIE Board at the February meeting and a revised version will be presented at the next meeting. There were two areas for highlighting, the first being Cairngorm and the second being knowledge sharing.

In relation to Cairngorm, the current issues, specifically in the context of HIE's budget mean this is high risk for HIE. The committee were assured that the organisation is allocating a significant amount of resource to deal with these issues. In relation to knowledge sharing, this is a recurring theme particularly around major projects and other income and we have increased activity in this area to ensure lessons learned are captured and shared. We are also capturing good practice such as how HIE dealt with the Sumitomo inward investment. This was the first ever submission under the Competition and Marketing Authority (CMA) arrangements in Scotland. There is much good practise that HIE can draw out and share internally and with our colleagues across the wider public sector.

The Director further confirmed that HIE also looks externally for knowledge sharing and lessons learned. This includes with the recent updates to the Scottish Public Finance Manual, some of which came from some of the Audit Scotland reports on other issues across the public sector.

The Committee highlighted that for some risks it may be more appropriate to consider these as issues and deal with these differently. It was noted that this might be a helpful approach to take for Cairngorm. The Director of BIIA welcomed the suggestion and confirmed that this was effectively how HIE was dealing with Cairngorm but agreed that putting that label on it would help.



The Committee also asked for assurance that areas such as the Growth Deals were covered by the risk register. The Director of BIIA confirmed that these were discussed by the HIE Leadership Team and covered by the risk register.

#### **4.5 Risk Appetite Statements**

The Director of BIIA presented a paper setting out HIE's updated Risk Appetite statements for the Committee, confirming that these were last updated in November 2023 and were previously updated on an annual basis. This has moved to a bi-annual refresh cycle and is the first update since this was agreed. The Director highlighted that there are opportunities for the use of the statements to be further embedded to support HIE decision making. It was noted that HIE's new strategy, new operating plan and the current fiscal environment which requires HIE to do things differently, mean this is a good time to review and update the statements. The revised risk appetite statements have been updated to reflect the current context and will be used to help with areas such as financial interventions and sourcing other income moving forward.

Committee member Belinda Oldfield commented that the revised appetite statements were on the right track and suggested a summary might help these be more accessible across HIE. The Committee member also offered to provide thoughts back for consideration. The discussion moved to the use of loans and the risks associated, with the Committee noting that HIE had been liaising with Scottish Government on how the risk environment across the public sector could support more loans.

The Committee further ask for clarity on two areas regarding statements of risk, the first being the ability to help more remote and fragile areas and the second being the partnership working where the risk falls to other partners. The Director confirmed that through the place based approach, prioritising those areas where there are geographic challenges and opportunities is explicit in the statements and partnership approach and the need to be not just a good partner but also one that leads where appropriate has been emphasised further.

The Committee noted the paper.

#### **4.6 Write Offs**

The Committee noted the paper for information and raised a question in relation to credit notes and the write-off of purchase credit notes. The Head of Financial Services noted that all efforts are made to chase and recover any credits. The particular items in question are very historic with little evidence available to allow the recovery of the sums due. The focus for this exercise is data cleansing in advance of the move to ERP and not wanting to transfer any items that were not going to be collectable and in most cases of minimal value.

#### **4.7 RAC Development Programme**

The programme was noted.

#### **4.8 Any Other Business**

The Chair thanked Belinda Oldfield who comes to the end of her term on the HIE Board on 31 March 2024, for all of her input to the Committee over her term on the Committee and in particular for her input to the areas of Risk and Risk Appetite and the mix of skills and experience brought to the Committee which will be missed going forward.

#### **4.9 Date of next meeting**

The next meeting of the Risk and Assurance Committee will take place on 4 June 2024.

Adrian Kitson  
Head of Executive Office  
14 March 2024

APPROVED