



FORESTRY AND LAND SCOTLAND AUDIT AND RISK COMMITTEE

10.30am, 5 December 2023, Apex House and MS Teams

Present:

Members: Mark Pountain (MP), Chair, Non-Exec
Clea Warner (CW), Non-Exec
Therese O’Donnell (TO), Non-Exec
Jo O’Hara (JO), Non-Exec

Attendees: Simon Hodgson (SH), Chief Executive FLS
Michael Hymers (MH), Director of Corporate Services FLS
Donna Mortimer (DM), Chief Financial Officer FLS
Jennie Smith (JS), Financial Controller FLS
Rhondda Salmond (RS), Change Manager FLS
Kate Moffat (KM), Head of Internal Audit, SGIAD
Amy Beveridge (AB), Internal Audit, SGIAD
Alison Thomson (AT), Internal Audit, SGIAD
Hannah McKellar (HM), Grant Thornton UK LLP (External Audit)
Angela Pieri (AP), Grant Thornton UK LLP (External Audit)
Sophia Christopoulos (SC), Secretariat Assistant FLS (Minutes)

Others: Graeme Prest (GP), Director of Land Management & Regions FLS
Iain Gray (IG), Senior Financial Accountant FLS

Action Point Summary:

Action Point Ref	Description	Status	Owner
02/2020	Management Information & Financial System Project Update.	Open	Donna Mortimer
10/2023	MH to provide update on mandatory training to support upskilling staff on cyber security and related matters.	Open	Michael Hymers
11/2023	Additional ARC meeting to be arranged to discuss ARA lessons learned outcomes and agree the audit plan for the next financial year.	Open	Sophia Christopoulos
12/2023	RS to consider approach to review of Risk Management approach and present as Deep Dive theme at next meeting.	Open	Rhondda Salmond

1. PRELIMINARIES/INTRODUCTIONS

MP welcomed everyone to the December FLS Audit and Risk Committee (ARC) meeting, outlined the agenda and highlighted key areas for discussion.

Conflict of Interests

There were no conflicts of interests declared.

2. MINUTES OF LAST MEETING AND ACTION POINTS

The ARC members agreed that the minutes were a fair and accurate record of the meeting held on 05 July 2023.

Matters Arising

It was agreed that Action Points 34/2021, 06/2023, 07/2023, 08/2023, 09/2023 were closed. The following Action Points were discussed:

06/2023 – Cyber-Security Training: Following the previous ARC meeting, feedback was provided to key business leads to ensure any cyber-security training is appropriately resourced to support mandatory training. MP asked for a further update on this. MH explained that the Director of Net Zero, Graeme Hutton, and key Digital Services leads have had further dialogue with Scottish Government (SG), in addition to seeking an opportunity to bring together a number of recent improvements, for example linking information assurance and cyber security training going forward. MH confirmed that he will circulate details of rollout dates for the training and update the ARC. MP reinforced the significant risks that cyber security poses, and that delivering on this is important, including development of appropriate monitoring and reporting.

Action:

10/2023: MH to provide update on mandatory training to support upskilling staff on cyber security and related matters.

3. ANNUAL REPORT & ACCOUNTS FY 22/23

3a. FLS Overview

DM began by acknowledging the staff efforts that have been dedicated to producing the Annual Report & Accounts (ARA) for FY 22/23 and thanked all those involved. She asked the Non-Executives to reflect on the document presented, opportunities to change the approach going forward and what lessons can be applied from this year's process.

IG provided an overview of the ARA as presented in the summary paper. He explained that the format of the ARA and associated disclosures are fully in accordance with the Government Financial Reporting Manual (FreM), as directed by Scottish Ministers; the 2022-23 statutory audit was undertaken by a new auditor, Grant Thornton LLP; and that there are no significant changes to the structure of the ARA.

With regards to performance, IG recognised that FLS has faced significant challenges this year due to various factors, including a reduction in timber prices, inflation, the cost of living crisis, adverse weather events, and ongoing staff illness due to Covid-19. Despite these challenges, there remains resilience and determination within the organisation as demonstrated by numerous achievements, including the retention of UKWAS accreditation, the publication of a

Corporate Plan 2022-2025, the continued implementation of the Climate Change Action Plan, and the roll out of a new Complaints Handling System.

IG went into more detail about the financial statements in the report, noting the increase in some overheads following reallocation of costs within cost centres. The Accounting Policies remain unchanged except for the treatment of leases. These are now accounted as capital and considered as fixed, non-current assets. In previous years these were called 'operating leases' and were expensed within the financial year. MP commented that IFRS 16 is a key facet of this year. AP explained that this was noted down as a risk; however, due to how well it has been implemented, the external auditors had no further comments.

JS summarised that the ARA clearly demonstrates the rise in expenditure and fall in income this financial year. This will have a subsequent impact on future sustainability, and DM emphasised the need to address this issue and move the organisation forward. SH reflected on the cyclical nature of the business and how this effects FLS's resilience.

MP thanked everyone involved for their hard work and dedication in producing the ARA, acknowledging the significant challenges navigated throughout the year.

3b. External Audit – FLS Accounts FY 22/23: Annual Audit Draft Report

As this was their first year as external auditors for FLS, AP began by reminding the attendees of Grant Thornton's duty to provide an opinion on financial statements. She then turned to the Executive Summary of the report, highlighting the section pertaining to target completion dates. She reflected on the reasons why these deadlines were missed and the necessary adjustments that were made to adapt to understanding FLS as an organisation. These adjustments were particularly numerous with regards to the technical review of the accounts, but these will be embedded in the process going forward.

AP highlighted an outstanding item in the report, an ongoing fraud investigation, which is also on today's agenda. She explained that before an opinion can be issued on this, she must follow due process by involving a peer reviewer and Grant Thornton's Risk Management Team. She then outlined the main adjustments and recommendations made in the report, thanking FLS business leads for their comprehensive responses to enquiries. As a result of additional work, AP explained that this resulted in a small requested increase to the audit fee.

AP concluded by thanking the agency for their hard work and acknowledged that earlier planning will be required next year. She outlined next steps for signing the ARA once the outstanding item has been removed, before opening the discussion to the ARC.

As the ARA have been significantly delayed this year, this generated substantial discussion. SH explained that this delay has subsequently impacted FLS's commitments to the Cabinet Secretary and the Scottish Parliament, thus presenting a reputational risk. DM stressed that there can be no ambiguity around future timelines, particularly when Scottish Parliament is involved, while MH added that the deadline for presenting the accounts to the Cabinet Secretary has already passed.

DM further highlighted that a precedence has been set in previous years, wherein accounts have been closed regardless of ongoing fraud investigations. The Non-Executives echoed this, with JO commenting that the external auditors were already behind before the fraud case came to light.

MP insisted that Grant Thornton resolve any outstanding questions with the fraud investigation by the end of today, and ensure the accounts are closed by the end of the week.

The ARC recommended the CEO sign the ARA subject to the conclusion of the outstanding fraud item. It was also agreed that the agency and Grant Thornton will undertake a lessons learnt exercise upon finalisation of the ARA. This is to ensure the joint and effective completion of the accounts in FY 23/24, particularly as timetable deadlines have been brought forward next year due to changes in requirements. Furthermore, MP requested that an additional short ARC meeting be held in late January/early February 2024 to reflect on the lessons learned outcomes and to seek assurance from Grant Thornton that they are able to deliver the audit plan. This was supported by the other ARC members.

TO sought clarification on the transpositions, which sits at £26.6 million, a surprisingly large value. TO and JO also noted an error associated with this in the report and asked how this had happened. JS explained that the external valuer who performed these calculations transposed the values from biological assets in error. JS acknowledged that this should have been picked up and that there will be changes to controls going forward as a result.

Action:

11/2023: Additional ARC meeting to be arranged to discuss ARA lessons learned outcomes and agree the audit plan for the next financial year.

4. AUDIT

4a. Internal Audit – Progress Report FY 23/24

KM introduced the progress report paper, providing a summary of key areas. She listed three advisory areas where they will provide input, the Transformation Programme, MIP and Corporate Planning, before identifying cyber security as a top risk alongside HR recruitment and retention. She explained that all the regions will be visited to review how business planning is integrated and linked back to the national office activities, policies and processes.

AT explained that the Governance assurance audit is mostly at the fieldwork stage, but that the majority of work will be completed before Christmas. The Programme of Works Review is attached to the document in which they have given their assurance opinion as substantial.

KM confirmed that the internal audit plan for FY 24/25 will be sent to SH in due course.

With regards to the internal audit team visiting the regions, JO advised that the narrative around this should be clearly established ahead of any visits. This is to ensure that staff are aware of the purpose of the audit, that it is not a 'tick-box exercise', but is instead a way of assuring change is properly implemented and integrated.

4b. Approach to Assurance Mapping

Internal audit shared information regarding assurance mapping as part of the directorate bulletin. The ARC discussed how this could be taken forward across FLS. MP outlined the basic concepts and the lines of defence in place, commenting that this progress is reassuring. JO suggested that any approach adopted should set out an operating framework, including how the annual evaluation of the ARC was incorporated.

6. RISK

6a. New/Emerging Business and Potential Risks

SH reflected that while the risk management process within the organisation is robust, there is always room for improvement. He stressed the importance of mitigating any complacency and suggested looking to other organisations for good practice. He cited as an example the interplay between risks and how mitigating actions have interdependencies.

JO commented that the financial sustainability challenge could be an example of this inter-relationship, i.e. the interaction between various individual risks could exacerbate or compound ongoing issues. MP added that exploring the overall approach to risk management and how this is informed by wider SG policy would be very valuable.

MH echoed this, noting the benefits of uniting approaches to risk management across regional and national offices. This would also increase awareness of the interconnected nature of the organisation. MP therefore sought agreement that a review of risk management be the next Deep Dive theme for consideration at the next meeting. The ARC agreed the theme, with JO suggesting utilising a facilitator to assist in this review.

Action:

12/2023: RS to consider approach to review of Risk Management approach and present as Deep Dive theme at next meeting.

6b. FLS Risk Register and Update, with focus on financial sustainability and risk

MH began by discussing financial sustainability and the importance of maintaining governance through identifying core activities and ensuring these are cost effective. As part of this, a better understanding of risk is required, as well as improved engagement with the risk register and tying this in with other key programmes.

CW reflected on a number of key work programmes currently being undertaken, and the need to take a collective approach to risk across them all to ensure they are aligned. TO emphasised the interconnectivity of the risk register and how this ties in with the Transformation Programme. She described how this holistic outlook should be fundamental to the organisation and integrated into its culture going forward.

7. ANY OTHER BUSINESS (AOB)

7a. Potential Fraud – Overview

MH provided an overview of an ongoing fraud investigation. Further details will be shared on the conclusion of the investigation.

7b. Deep Dive – Next Theme

As per the earlier discussion on item 6, it was agreed that the next theme for the deep dive would review the agency's approach to risk management, including the risk register.

8. MEETING BETWEEN NON-EXECUTIVE ADVISORS AND GRANT THORNTON UK LLP / INTERNAL AUDIT

MP offered to have an informal conversation after the conclusion of the ARC meeting. Otherwise he thanked all those attending, wished everyone a wonderful Christmas and closed the meeting.

9. CLOSE

Date of next meeting confirmed as Monday 11th March 2024 at 10.30am.