



FORESTRY AND LAND SCOTLAND AUDIT AND RISK COMMITTEE

09.30, 14 December 2022, Silvan House and MS Teams

Present

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

Attendees : Simon Hodgson (SH), Chief Executive FLS
Michael Hymers (MH), Director of Corporate Services FLS
Tom Greenan (TG), Interim Head of Finance FLS
Rhondda Salmond (RS), Change Manager FLS
Kate Moffat (KM), Head of Internal Audit, SGIAD
Amy Grant (AG), Internal Audit, SGIAD
Joanne Brown (JB), Partner, Audit Public Sector, Grant Thornton (Item 4 only)
Celyn Paton, Admin Officer FLS (Minutes)

Others: Graeme Hutton (GH), Director of NetZero FLS (Item 5b)
Dave Exeter (DE), Head of Digital Services FLS (Item 5b)

Apologies: Donna Mortimer (DM), Head of Finance & Procurement FLS

Action Point Summary:

Action Point Ref	Description	Status	Owner
2/2020	Management Information & Financial System Project Update, including impact on timescales as a result of Covid-19	Closed but held as recurring action.	Michael Hymers
23/2021	RS to review the width of the risk appetite bands.	Open	Rhondda Salmond
34/2021	SHo to consider assurance framework and evaluate if communication between assurance levels within the organisation is effective, looking at potential to attach to current ongoing governance work with FLS Executive Team	Open	Simon Hodgson

35/2021	Audit Scotland to facilitate introductory meeting between Grant Thornton and FLS management prior to new audit process commencing.	Open	Mark Taylor/Rhondda Salmond
36/2021	SHo to update ARC on SF service model separation at future ARC meeting.	Open	Simon Hodgson
06/2022	Where required SHo to meet with Non-executives to discuss proposed new Governance Arrangements	Open	Simon Hodgson
08/2022	TG to provide assurance documenting changes and improvements to processes involved in the AR&A.	Open	Tom Greenan
11/2022	TG to work with Grant Thornton to document Audit Process timeline for FY 23/24.	Open	Tom Greenan/Joanne Brown
12/2022	RS to incorporate regular discussions on Strategic Risk Appetite assessment to provide assurance that it is appropriate and increase visibility across the organisation.	Open	Rhondda Salmond
13/2022	Risk Appetite to be reviewed at ARC March 2023 meeting.	Open	Rhondda Salmond
14/2022	GH to circulate Audit Scotland guidance on SEPA cyber security incident to ARC members.	Open	Graeme Hutton
15/2022	MH and TG to present a paper at the next ARC detailing FLS's Reserve and Investment Policies.	Open	Michael Hymers/Tom Greenan
16/2022	RS to consider linking FLS's Reserve Policy with the Risk Register.	Open	Rhondda Salmond
17/2022	AG to circulate Internal Audit's Plan For FY 21/22 to new Non – Execs and request any priority areas for Internal Audit review in FY22/23.	Open	Amy Grant

1. PRELIMINARIES/INTRODUCTIONS

MP welcomed everyone to the December FLS Audit and Risk Committee (ARC) meeting, outlined the agenda and asked all to introduce themselves for the new FLS Non-Executive Advisors' (NXA) first meeting. He then gave a brief presentation and overview of the current ARC approach to provide background and context for the new NXAs. He highlighted the overall objectives and structure of the ARC, intended to support the Accountable Officer (AO) through a process of constructive challenge and advice, providing scrutiny and oversight in relation to organisational governance, assurance and risk management.

SH reflected on the complexity and risk exposure of the business, encouraging continued critical assessment to ensure current procedures and processes are scrutinised, offering good insight into business operations and associated risks, and he looked forward to the new NXAs input.

JO recognised FLS' legacy and business practices, highlighting the unique combination of risks this presents, and sought clarity as to whether the AO's assessment of risk has changed since the initial establishment of FLS in 2019.

SH outlined that the relationship between FLS and Scottish Government (SG) has changed over this time, with FLS now obligated to contribute and deliver on a number of wider SG policies, which can pose challenges and related risks. However, FLS maintains a supportive and positive reputation amongst SG's portfolio and is regarded as a successful and reliable delivery body.

Conflict of Interests

MP asked for any Conflicts of Interest (CofI). JO stated that she is a Consultant for a Community Project which is currently in discussion with FLS regarding a potential land transfer. The Chair thanked her for details, advising that this would not be of conflict to tabled agenda items.

2. ANNUAL CHAIR REPORT

MP advised that the Annual Chair Report had been circulated to members for review and asked the AO to agree recommendations made.

KM requested a correction within the report, advising that she had commenced her role in April 2020, and asked for clarification as to who was consulted in the drafting of the report. MP responded that minutes and papers from previous ARC meetings had been referred to and LT had been consulted. KM suggested that for future reference, the Chair should consider consulting wider members and regular attendees of the ARC to ensure appropriate feedback is received. MP agreed.

SH thanks the Chair for the report, confirming he was content with the details and agreed to the recommendations.

3. 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 28 September 2022.

Matters Arising

It was agreed that Action Points 2/2021, 14/2021, 26/2021, 07/2022, 9/2022 and 10/2022 were closed.

4. EXTERNAL AUDIT - INTRODUCTION

MP welcomed JB from Grant Thornton to the meeting, asking for an overview of Grant Thornton's audit plan and timeframe.

JB outlined Grant Thornton's experience working with Audit Scotland and thanked both MH and TG for their initial insights, providing background to FLS, highlighting any organisational challenges and understanding FLS' preferred audit timeline. She advised that Grant Thornton are due to meet with Audit Scotland in January 2023 for a formal handover, assuring the ARC that Grant Thornton would follow Audit Scotland's Handover Protocol, to ensure assurance given to

the opening balances between FY 22/23 accounts and a consistent transition for FLS. Grant Thornton intends to bring an Audit Plan to the ARC in March 2023 and welcomed the opportunity to work with FLS.

SH recognised different approaches to audits and asked if Grant Thornton's timeline was likely to change. JB confirmed that Audit Scotland's timelines ask auditors to annually issue a draft Audit Plan by the end of February and central government bodies to sign off AR&A no later than 31st October. Grant Thornton will work with FLS to draft an audit plan to suit FLS' Finance Team in ensuring quality accounts, allowing the Finance Team to subsequently support the audit process.

The ARC thanked JB for her reassurance and welcomed the opportunity to work with Grant Thornton going forward.

Actions:

- **11/2022: TG to work with Grant Thornton to document Audit Process timeline for FY 23/24.**

5. RISK

5a. Risk Appetite, Risk Register overview & update

MP noted how FLS's approach to Risk had developed since its establishment in 2019 and asked RS to give a brief presentation on FLS' approach to Risk Appetite following JO's request at the previous Strategic Board (SB) meeting. RS outlined that the current Risk Management Policy and Framework had been developed following a review by Internal Audit in 2019, including the Risk Appetite statement which was informed by discussions with FLS' senior leadership team, leadership teams from other organisations, Internal Audit and FLS's ARC. The current overall risk appetite assessment for the organisation sits as 'Cautious'. RS advised that the ARC will have the opportunity to reflect and review the current risk appetite statement and assessment in early 2023 and welcomed any initial feedback. MP commented that, as required by the Framework Agreement, Risk Appetite should be reviewed annually and asked that it be included as an agenda item in the March 2023 meeting.

LT asked how FLS is assessing its performance against the agreed the risk appetite statement, and are we able to increase risk appetite around certain business areas?

RS outlined that as an organisation, FLS continually assesses its risk appetite when reviewing the Risk Register and seeks regular Internal Audit input to ensure a cyclical feedback process. Where we can reasonably demonstrate and evidence that operating outwith assessed risk appetite tolerances is of benefit, approval from the Management Board is sought. This led to a discussion around overall risk appetite and risk appetite for particular areas of business, with ARC members noting and agreeing spectrums of tolerance for specific aspects of FLS.

RS advised that the FLS Corporate Risk Register and associated papers had been circulated for review by the ARC. MP asked whether any ARC members wished to discuss any particular risks, noting that the ARC had previously agreed to do a 'deep dive' on one risk per meeting. Cyber Security risk was scheduled as the next agenda item at this meeting.

The ARC thanked RS for her overview and efforts.

Actions:

- **12/2022: RS to incorporate regular discussions on Strategic Risk Appetite assessment to provide assurance that it is appropriate and increase visibility across the organisation.**
- **13/2022: Risk Appetite to be reviewed at ARC March 2023 meeting.**

5b. 'Deep Dive': Cyber Security (FLS 20)

GH and DE provided an overview of cyber systems and controls in place across the organisation to provide assurance to the ARC that the risks associated with Cyber Security have been appropriately assessed and planned actions are in place to mitigate. DE highlighted a number of key points for the ARC's consideration:

- Cyber threats increase year on year, with recent examples including the ongoing conflict in Ukraine increasing potential risk
- It is a constantly evolving situation requiring continual monitoring and management
- FLS are aware of potential threats and seek to actively manage the risks

JO asked if FLS had undergone a lessons-learned exercise in light of the 2020 SEPA security attack and requested if any guidance had been produced by SEPA for Non-Execs and ARCs. DE advised that in light of the SEPA security incident, FLS had reviewed its Cyber Response Plan, improved its cyber defences and invited the CEO of SEPA to share experiences learnt with the Management Board to raise awareness. GH advised that Audit Scotland had produced guidance for Non-Execs after the SEPA security attack and agreed to circulate this to members.

CW sought clarification as to how FLS manages risks associated with staff. DE highlighted a number of mitigation actions in place across the organisation including mandatory staff training, phishing simulation exercises to raise staff awareness, working in partnership with SG to implement their systems and protocols around staff training and regular targeted staff communications to promote awareness.

LT questioned how Cyber Security relates to Information Governance across the organisation and offered her experience and input if needed. DE advised of a number of controls in place including FLS' Security, Information, Risk and Assurance Board and reflected that FLS could consider raising the profile of information assurance measures surrounding Cyber Security to provide further assurance to the ARC. GH welcomed LT's insight and future input.

TO recognised the current risk score attributed to FLS20 and asked if the target risk score set is realistic and requested estimated timescales associated with achieving this. DE outlined that the target risk score is realistic to the organisation and recognised a number of actions and measures currently in progress to enable this. He estimated a timescale of 12-18 months dependent on certain factors.

The ARC thanked GH, and DE and team in particular, for their work and efforts and agreed that the 'Deep Dive' analysis was a thorough and comprehensive overview providing assurance to the organisation. The ARC emphasised the reiterative requirement for reviewing cyber-security policy and practices, and the need to ensure routine training and awareness of employees.

Actions:

- **14/2022: GH to circulate Audit Scotland guidance on SEPA cyber security incident to ARC members.**

5c. New/emerging business and potential risks

SH provided a verbal update on new and emerging risks affecting FLS, highlighting recent SG resource allocation discussions and the potential impacts this could have for the business, FLS' financial reserves and risk appetite. He recognised potential new risks for consideration such as the potential for business innovation, entrepreneurship, and investment opportunities.

LT felt that the time is right for a review of FLS's reserves and future investments policy, and requested that a detailed report is presented at the next ARC reflecting the current position for NXAs' consideration.

TG recognised LT concerns and provided a brief summary of the ongoing 5-Year Business Planning process, outlining earmarked reserves and future business investments, emphasising FLS's long term plan to become financially sustainable.

JO suggested linking FLS's Reserves Policy with the Risk Register to demonstrate clearly the governance and assurance across the organisation.

Actions:

- **15/2022: MH and TG to present a paper at the next ARC detailing FLS's Reserve and Investment Policies.**
- **16/2022: RS to consider linking FLS's Reserve Policy with the Risk Register.**

5d. Cumulative Risk Discussion

RS presented an overview of FLS' Cumulative Risk analysis. She identified the inter-dependence of a number of risks on the Risk Register, highlighting the holistic approach used to identify, mitigate and monitor cumulative risk. Recognising current challenges including risks outwith FLS' control such as timber market volatility, recruitment and retention pressures and inflation, RS noted the importance of exploiting opportunities to explore how FLS might operate differently and manage future risk mitigation.

The ARC thanked RS for her update and welcomed continued monitoring of Cumulative Risk to provide assurance to the organisation and AO.

6. AUDIT

6a. Internal Audit – Progress Report

KM outlined that Internal Audit are on target to deliver the Annual Audit Plan for FY 22/23 and planning for FY 23/24 Audit Plan is under way, welcoming any priority areas for consideration from the new NXAs, noting that she had already received some suggested priorities for consideration from MP. She advised that AG had now been appointed as the new Internal Audit Manager for FLS.

AG stated that the Internal Audit progress report had been circulated, and highlighted the following key points:

- the final Financial Governance and Management review had recently been issued with a substantial assurance opinion
- the Contract Management Report had been issued in draft, due for finalisation in the New Year.

The ARC thanked Internal Audit for their report and looked forward to considering Internal Audit's plan for 2023/24 at the March meeting.

Actions:

- ***17/2022: AG to circulate Internal Audit's Plan for FY 22/23 to new Non – Execs and request any priority areas for Internal Audit review in FY23/24.***

6b. Audit Recommendations & Actions – Progress Report

RS advised that the report had been circulated for review and welcomed comment.

MP thanked Internal Audit and all concerned for their work on six key issues, and raised the issue of Payroll records not yet being fully checked for all FLS employees, noting that this presented requested potential risk to the organisation in addition to the employees themselves. TG agreed, noting the challenges presented by the inheritance of legacy systems, and highlighted the considerable effort that had gone into ensuring that all records are up-to-date and correct. He stated that the current focus is on ensuring an accurate headcount number for the organisation and putting regular checks in place to monitor this. Improvements to the current HR system are taking place and noted that recent changes within the HR team have delayed progress. He assured the ARC that work was ongoing to raise the percentage completion score.

7. ANY OTHER BUSINESS (AOB)

There were no AOBs raised.

Meeting between Non-Executive Advisors and Audit Scotland / Internal Audit

Due to time restraints, it was agreed to arrange this meeting for a later date.

Date of next meeting confirmed as Thursday 23rd March 2023 at 10.30.