



FORESTRY AND LAND SCOTLAND AUDIT AND RISK COMMITTEE

10.30am, 3 September 2024, Apex 1 (Livingstone Room) & MS Teams

Present:

Members: Mark Pountain (MP), Chair, Non-Exec
Jo O’Hara (JO), Non-Exec
Lyndon Jones (LJ), Non-Exec

Attendees: Kevin Quinlan (KQ), Chief Executive, FLS
Michael Hymers (MH), Director of Corporate Services, FLS
Donna Mortimer (DM), Chief Financial Officer, FLS
Jennie Smith (JS), Deputy Head of Finance, FLS
Iain Gray (IG), Senior Financial Accountant, FLS
Kate Moffat (KM), Head of Internal Audit, SGIAD
Alison Thomson (AT), Internal Audit, SGIAD
Ashley Green (AG), 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)

Apologies: Clea Warner (CW), Non-Exec
Therese O’Donnell (TO), Non-Exec
Rhondda Salmond (RS), Change Manager, FLS

Action Point Summary:

Action Point Ref	Description	Status	Owner
02/2020	ASPEN Project Update.	Open	Donna Mortimer
09/2024	RS to provide an update on risk management improvement opportunities, alongside the annual review of the Risk Appetite Statement at the next ARC meeting.	Closed	Rhondda Salmond
15/2024	JS to request index of valuations from valuers.	Open	Jennie Smith
16/2024	SC to schedule additional ARC meeting in July/August 2025.	Open	Sophia Christopoulos

17/2024	AT to investigate revenue leakage as part of the Internal Audit report if resources allow.	Open	Alison Thomson
18/2024	AT to consider amalgamating recommendations if future reports where possible.	Open	Alison Thomson
19/2024	MH to create joint action tracker with Internal Audit, ensuring these accurately align in content and format.	Open	Michael Hymers
20/2024	RS to consider approach to review Risk Management and present as Deep Dive theme at next meeting.	Open	Rhondda Salmond

1. PRELIMINARIES/INTRODUCTIONS

MP welcomed everyone to the FLS Audit and Risk Committee (ARC), introduced those present and outlined the agenda.

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 10 June 2024.

Matters Arising

It was agreed that Action Points 10/2024, 11/2024, 12/2024, 13/2024, 14/2024 were closed. The following Action Points were discussed:

02/2020 – ASPEN Project Update: MH and DM provided an update, noting that the date of implementation has been delayed until the end of March 2025. This is due to the time it took to complete the integration work and ensure that the Oracle system could communicate with the existing Systems Sales Recording Package (SSRP). This also allows time for an Oracle system upgrade to take place before implementation. MP inquired as to whether the legacy systems will still be available to use after the data migration. DM responded that this data will still be accessible and that Mastek will perform several trial runs before the official data migration to ensure the implementation process goes smoothly.

LJ verified that Grant Thornton were content with accessing the required data on legacy systems and reinforced the importance of clear communication between them and FLS. JS stated that a working group has been established to facilitate this, with AP adding that they will factor in additional resourcing, which may require an additional fee. If this fee is required, KQ requested that discussions be held as soon as possible.

09/2024 – Risk Management: KQ confirmed that he has been briefed on FLS’s risk appetite as noted in the previous minutes, highlighting that this will be an ongoing discussion.

MP commented on the benefits of reviewing the organisation's risk appetite. MH explained that Scottish Government (SG) have recently reviewed their risk appetite at executive and directorate levels, and the outcomes of this will be cascaded. He added that two colleagues from SG working in risk management will be joining the Executive Leadership Team (ELT) meeting on 25th September 2024. The ARC agreed that an overall deep dive into risk would be valuable and timely.

This action was closed as it is superseded by action 20/2024.

3. ANNUAL REPORT & ACCOUNTS FY 23/24

3a. FLS Overview

JS presented an overview of the ARA, highlighting key financial figures and allowing the ARC to scrutinise the governance statement. She explained that there were no significant changes to the ARA this financial year, with the exception of a few formatting alterations and that Grant Thornton have provided an unqualified audit opinion. The communication and relationship between FLS and Grant Thornton has improved significantly, with the ARA completed three months earlier than last year. She reflected on areas for improvement, such as returning samples within agreed timeframes, and provided assurance that a lessons learnt exercise will be conducted. In preparation for next year, she noted that the dual systems (ASPEN and legacy systems) pose a risk to the production of the ARA and that a possible extension to the timeline may be required.

The ARC commented on the narrative of the ARA and how this aligns with its purpose and audience. DM stressed that compliance with the FReM is the primary objective, which therefore puts restrictions on the content and format of the document. JO advised that strategic communications around shifting narratives and priorities is paramount in managing reputational risk.

AP raised that there will be wholesale changes to the SoCNE, the details of which are not yet known. This could have an impact on timescales and DM proposed holding a workshop to understand the implications once full details are known and understood.

3b. External Audit – FLS Accounts FY 23/24: Annual Audit Draft Report

AP outlined the financial statements for FY 23/24 and the wider score. She echoed that deadlines have been better adhered to this year, commending those involved. She noted that there is an additional audit fee, which has been approved by management. Discussions will continue with management to build in further efficiencies for next year, with recommendations laid out in the appendix of the report.

HM went into further detail, explaining that there are no changes to the planned approach to the audit of the financial statement. Similarly there are no changes to the significant risks identified in the audit plan, such as fraud and valuation of biological assets. One area outstanding is the completion of the Whole of the Government Accounts which is always completed post-signing of the ARA. The wider scope audit presented financial sustainability as a significant risk, with the Transformation Programme recognised as a way to manage this. She outlined the recommendations raised, including those from the previous year. She emphasised the need to action recommendations from both internal and external audit in a timely manner and ensure these are communicated appropriately across the organisation.

JO sought clarity on whether the value of the estate was being sustained under FLS guardianship. JS responded, highlighting the challenges of measuring the value of the estate and the quantity of work required. KQ requested that the valuers provide an index of valuations so these can be compared to the organisation's balanced scorecards. AP added that the primary focus of valuations is compliance as it is always a significant area of risk.

MP inquired as to where the outstanding recommendations are tracked. MH responded that there is an action tracker but the assurance framework is going to be revised as requested by KQ. Preliminary discussions have been held between KQ and Internal Audit on the proposed revisions.

LJ and KQ recommended that an interim meeting be scheduled for the summer period next financial year to allow the ARC to offer constructive input before the ARA are finalised.

The ARC recommended that the CEO sign the ARA.

Action:

15/2024: JS to request index of valuations from valuers.

16/2024: SC to schedule additional ARC meeting in July/August 2025.

4. AUDIT

4a. Internal Audit – Progress Report FY 24/25

KM provided an overview of the strategic elements of the report, noting that there is a new Director of Internal Audit and Assurance as well as four new members of staff. The new Global Internal Audit Standards have been launched and a gap analysis will be conducted to address the changes; updates will be communicated as this progresses. KM highlighted that some of these changes are likely to impact the ARC, particularly in terms of follow ups and recommendations. Work is already underway within FLS to create a more robust recommendation tracker and Internal Audit will schedule more frequent follow ups to ensure these recommendations are fully implemented. There will also be slight changes to engagement with ARC members in terms of more formalised diary dates.

AT gave a progress update on the regional visits and outstanding areas of work, explaining that the report will most likely be finalised after December 2024. KQ sought clarity on what will be included in the report. AT responded that three areas are being evaluated; budgeting, planning and reporting. Emerging findings are being given to the regions so that work can begin on taking recommendations forward. Timber harvesting and other NO functions and the controls around this are also being assessed, as well as the interactions between national and regional offices. KQ requested insight into revenue leakage, which AT agreed to investigate should resources allow. AT stated that a cyber security audit is planned later in September 2024, using an external company Ernst & Young, followed by an audit on the ASPEN Project.

AT sought feedback on the Recruitment and Retention (RR) assurance report. KQ observed that two of the recommendations overlapped and requested that these be captured in one. AT

identified that these were kept separate for specific reasons but would consider this for future reports.

Action:

17/2024: AT to investigate revenue leakage as part of the Internal Audit report if resources allow.

18/2024: AT to consider amalgamating recommendations if future reports where possible.

4b. Audit Recommendations and Actions – Progress Update

KM highlighted that a high priority recommendation regarding pay roll has not been fully implemented, though this is marked as such in the action tracker. She stressed the importance of ensuring FLS's action tracker accurately mirrors Internal Audit's report and recommendations. MH echoed this, emphasising the need for accountability and timeliness. The ELT is responsible for improving the overall annual assurance rating through ensuring that key assurance themes are identified and actioned in a timely manner, while also maintaining a holistic and overarching view of the recommendations. Furthermore, responses to Internal Audit should be realistic in terms of resourcing and timing. JO reiterated the importance of FLS's and Internal Audit's reports aligning, adding that the formatting of these could also be improved with clearer linkages.

KQ proposed reviewing the relative significance of recommendations and associated business risks, not just within categories but across categories, in order to establish a priority sequence of actions. KM stated that she could help with this in an advisory capacity. To facilitate this, he recommended creating a joint action tracker between FLS and Internal Audit.

Action:

19/2024: MH to create joint action tracker with Internal Audit, ensuring these accurately align in content and format.

5. BREAK

6. RISK

6a. New/Emerging Business and Potential Risks

KQ identified two key risks for the organisation; SG funding and transformational change. A meeting has been arranged between the FLS ELT and the Cabinet Secretary to discuss FLS's Transformation Programme and financial situation. He outlined the financial figures for FY 24/25, including commercial revenue and projected deficit, acknowledging the positive impact that continued economic recovery will have on the timber industry. He commented on the challenges within the business, particularly around controlling costs and expenditure. The tentative long term objective over the next three years is to be cash positive on commercial operations and for non-commercial activities to be fully funded, either internally, through SG project funding or the Annual Subsidy Limit (ASL). With regards to the Transformation Programme, there is a new Transformation Programme Director, Rob Pengilley, who joined at the beginning of September 2024. KQ explained that once Rob has familiarised himself with the business, he will examine different change initiatives across the organisation's value streams.

JO provided an overview of the wider political context in Europe, identifying three significant areas; EU Deforestation Regulation, Nature Restoration Law and a pause on exports to Ireland due to Ips typographus (IPS). KQ confirmed that colleagues are investigating IPS and its impact, however further exploration of the first two areas would be beneficial.

MP considered whether increased buoyancy in the timber market may have any unexpected consequences. MH responded that coping with the upturn may pose as a challenge due to the gap in skilled workers, particularly skills such as timber harvesting and haulage. Encouraging workers into the forestry sector is vital in order to meet any increasing demand in the timber market.

MP raised the issue of adverse weather conditions, inquiring as to the mitigation of associated business risks. KQ stated that he recently met with agency directors, including those from Scottish Forestry and Nature Scot, to discuss the challenges of climate change. He explained that a better pipeline of land management is required, alongside more robust harvesting plans. MH echoed the criticality of robust planning, which will allow for more adaptability and flexibility in adverse circumstances.

6b. FLS Risk Register

This was discussed as part of the previous agenda item.

7. AOB

7a. Deep Dive – Next Theme

As per the earlier discussion on action 09/2024, it was agreed that the theme for the next Deep Dive would explore the organisation's approach to risk management, including risk appetite, risk strategy and the risk register. LJ added that a focus on risk mitigation would also be beneficial.

Action:

20/2024: RS to consider approach to review Risk Management and present as Deep Dive theme at next meeting.

8. CHAIR REFLECTIONS AND HANDOVER

MP stated that he thoroughly enjoyed his time as chair of the ARC, reflecting on the past five years in post and thanking everyone for their support. KQ thanked MP for his dedicated service.

9. MEETING BETWEEN NON-EXECUTIVE ADVISORS AND EXTERNAL / INTERNAL AUDIT

MP confirmed that there was no requirement for this meeting. He thanked all those attending and concluded the meeting.

10. CLOSE

The date of the next ARC meeting is 27 November 2024.