



FORESTRY AND LAND SCOTLAND AUDIT AND RISK COMMITTEE

09.30, 28 September 2022, Silvan House and MS Teams

Present

Members: Mark Pountain (MP), Chair, Non-Exec
Lisa Tennant (LT), Non-Exec

Attendees : Simon Hodgson (SHo), Chief Executive FLS
Michael Hymers (MH), Director of Corporate Services FLS
Tom Greenan (TG), Interim Head of Finance FLS
Jennie Smith (JS), Deputy Head of Finance FLS
Rhondda Salmond (RS), Change Manager FLS
Mark Taylor (MT), Audit Scotland
Gillian McCreadie (GM), Audit Scotland
Kate Moffat (KM), Head of Internal Audit, SGIAD
Amy Grant (AG), Internal Audit, SGIAD
Celyn Paton, Admin Officer FLS (Minutes)

Others: Colin MacCallum, Senior Finance Manger FLS (Item 4)

Apologies: Donna Mortimer (DM), Head of Finance & Procurement FLS
Alison Thomson (AT), Internal Audit, SGIAD
Stephanie Harold (SHa), Audit Scotland

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.	Donna Mortimer
2/2021	Provide detailed update on Risks; FLS5 and FLS17 (early 2022)	Open	Michael Hymers
14/2021	Develop organisational capacity decision making tool	Open	Michael Hymers
23/2021	RS to review the width of the risk appetite bands	Open	Rhondda Salmond
26/2021	RS to look at how future changes to risk scores can be noted to show trends towards / away from target risk scores	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
07/2022	RS to incorporate deep dive exercise on accumulation of risks at next ARC.	Open	Rhondda Salmond
08/2022	TG to provide assurance documenting changes and improvements to processes involved in the AR&A.	Open	Tom Greenan
09/2022	MP & LT to consider any priority areas for Internal Audit review for FY23/24.	Open	Mark Pountain/Lisa Tennant
10/2022	RS to schedule ARC dates for FY23/24.	Open	Rhondda Salmond

1. Preliminaries/Introductions

MP welcomed everyone to the FLS Audit and Risk Committee (ARC) meeting, chairing a hybrid meeting with SHo and MT also present in Silvan House, and outlined the agenda noting the key item of the Annual Report & Accounts, and that this would be the last time that Audit Scotland representatives would attend the ARC in their External Audit capacity.

There were no declarations of conflict of interests.

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 2022.

Matters Arising

It was agreed that Action Points 01/2022, 02/2022, 03/2022, 04/2022 and 05/2022 were closed.

3. Risk

3a. New and Emerging Business and Potential Risks

SHo provided a verbal update on new and emerging risks affecting FLS, acknowledging the

compounding effect of current external factors including changes within Westminster administration, reallocation of SG budgets to combat the cost of living crisis and increasing economic pressures such as rising inflation rates and pay awards, combined with already existing organisational pressures, which all adds potential for increased risk to the business. SHo advised that after recent FLS Management Board discussions, consideration was ongoing to ensure the FLS Risk Register appropriately captures this accumulation of factors.

Advising that the 5-year Business Planning process was ongoing, SHo recognised that efforts will continue to focus on building further financial resilience into plans to ensure long-term business sustainability.

SHo expressed caution regarding recent fluctuations in exchange rates, adding uncertainty around timber pricing and warned the potential for a fall in demand, should interest rates rise further. Work is ongoing to monitor timber price fluctuations.

Acknowledging the ongoing recruitment and retention pressures across the business, SHo highlighted that some areas of the business are currently operating at a 10% or more vacancy rate, increasing pressures on existing staff. Recognising the impact this is having, Simon outlined a number of priority work areas focused on staff wellbeing, recruitment approaches and affordable housing, stressing that FLS Management Board are aware of current pressures on staff and are supporting and mitigating where possible, however it is recognised that many of the risks are outwith the organisation's control.

SHo summarised that work will continue to assess any future change to risk, to ensure current controls and actions to mitigate against risk are still relevant and appropriately captured within the FLS Risk Register.

Following discussion around the strategic operating environment, MP suggested a 'deep dive' analysis to assess the cumulative risk of various risks potentially impacting the organisation concurrently, which was agreed.

The ARC discussed potential implications of financial pressures on FLS's cash reserves. MThe ARC recognised that the business is committed to maintaining sufficient reserves to manage any timber market fluctuations or unforeseen circumstances and continue to develop a sustainable business trajectory.

MP sought clarity on recruitment and retention given workforce pressures, and SHo outlined ongoing work focusing on changes to FLS recruitment strategies including staff development, staff wellbeing and launching an Employee Value Promise (EVP). MH also advised the ARC of a successful recent recruitment campaign, and of the organisation's efforts around recognising critical capabilities. SHo commented on the financial lure of the Private sector, which will always represent a risk to FLS. MP commented on the potential importance of employee value propositions, and that it can be helpful for public sector organisations to actively promote and underline their benefits, particularly in the face of private sector competition.

Actions:

- **07/2022: RS to incorporate deep dive exercise on accumulation of risks at next ARC.**

3b. FLS Risk Register and update

RS advised that the FLS Risk Register and associated papers had been circulated, noting that a

number of emerging risks had already been highlighted and opened up the discussion for comment.

SHo recognised ongoing procurement challenges within the business and highlighted an increase in correspondence from unsuccessful bidders, acknowledging that the efforts required to provide feedback is adding pressure to already impacted resources.

MH advised of a recent risk to Cyber Security involving a member of staff accessing FLS systems outside of the UK without pre-approval, which had triggered protocols in SG. All related accounts had been suspended pending further investigation, and FLS was working with SG on testing and remedying Security compliance and use of IT equipment.

The ARC thanked RS and MH for their updates and were content with the reports and progress on actions.

4. Annual Report & Accounts FY 21/22

4a. FLS Overview

TG expressed thanks to both the Finance team and Audit Scotland for their efforts to complete the Annual Report and Accounts (AR&A) for FY 21/22 and proceeded to highlight a number of key areas to the ARC. FY 21/22 benefited from strong timber prices contributing to increased revenue and organisational value. However, current organisational pressures including inflation and pay awards will have longer term impacts which need to be considered in the 5-year Business Planning model.

Based on Audit Scotland's recommendations, TG expressed a number of key priority areas the Finance team will focus on in the coming year and highlighted that a specific individual is now in place to manage and co-ordinate all audit recommendations to ensure completion. Work is ongoing within the team to review the AR&A process and embed improvements where appropriate.

TG advised of a small inconsistency to a figure sent out in the draft AR&A, the total apprenticeship number being 38, not 40 as indicated in the draft. This had been updated in the final set of AR&A.

The ARC thanked TG and all involved for their efforts and welcomed the collaboration between FLS Finance staff and External Audit to continue to develop AR&A processes and assurance

MP then invited MT to provide his overview, assessment and recommendations, noting the desired outcome of a recommendation to the Accountable Officer (SHo) by the ARC to sign the AR&A.

4b. Audit Scotland – FLS Accounts FY 21/22 Cover Letter

MT advised that audit work on the AR&A was now substantially complete and subject to any discussions at today's meeting, he outlined the intention that the AR&A FY21/22 be approved and signed by the Accountable Officer (AO).

MT highlighted an ongoing outstanding matter relating to SG grants and specific funding allocated for use outwith FY 21/22, not to be allocated as income in year. After discussions with management, these will remain as unadjusted errors within the AR&A FY 21/22 and are immaterial. MT advised that Audit Scotland were content with this.

LT stated that any processes involved in the outstanding matters subsequently resulting in financial errors to the AR&A FY 21/22 should be reviewed to ensure they do not occur again. TG advised that as part of Audit Scotland recommendations, quarterly reviews were now ongoing to allow opportunity to highlight any potential financial errors and mitigate any risk, to ensure financials are allocated in year correctly.

In order to be clear and transparent for the AO, MT recognised an exception within the 'Letter of Representation' regarding income from renewables, highlighting this as a reasonable adjustment, and ensuring SHo understood and acknowledged this.

MT asked both the AO and the ARC to confirm to their knowledge that all accounting transactions were legitimate and regular and whether any discussion or information relating to fraud, post-balance sheets or illegality had not been brought to Audit Scotland's attention.

Both the AO and ARC confirmed to their knowledge that none of the above had been withheld from Audit Scotland.

4c. Audit Scotland – FLS Account FY 21/22: Annual Audit Draft Report

MT outlined that the final FY 21/22 Draft Annual Audit Report had been submitted to the ARC for review and outlined key areas for ARC consideration including materiality levels, significant findings, key messages and recommendations made. Highlighting the complexity and challenges involved with FLS's financials, MT expressed thanks to the finance team for their work and recognised the efforts of all those involved in the Audit process.

MT recognised that this would be Audit Scotland's final ARC meeting and advised that Grant Thornton have been appointed as FLS's new auditor, assuring the ARC that Audit Scotland would do its best to facilitate a handover with Grant Thornton to initiate their engagement with FLS.

On behalf of Audit Scotland, MT expressed his thanks to both SHa and GM for their support and efforts throughout Audit Scotland's appointment to FLS.

The ARC discussed the report and recognised the positive progress which has been made to date and the continuing work underway to meet audit recommendations. MP recognised the importance of documenting any errors in processes within the AR&A FY21/22 to ensure continuous improvement.

The ARC accepted Audit Scotland's recommendations and expressed their sincere thanks for all the hard work throughout the year to help bring the AR&A to conclusion, as well as for Audit Scotland's collaborative approach.

The ARC then advised SHo of its recommendation for him to sign off the AR&A FY21/22 as AO. SHo, thanked both Audit Scotland and the ARC and confirmed that he was content to sign off the AR&A FY21/22.

Actions:

- **08/2022: TG to provide assurance documenting changes and improvements to processes involved in the AR&A.**

5. Audit

5a. Internal Audit – Progress Report FY 22/23

AG provided a brief update on Internal Audit's Progress report and asked the ARC for any comments.

The ARC thanked Internal Audit for their report and welcomed continued work.

KM advised that the annual assurance opinion for FY21/22 was noted as Reasonable and outlined that Internal Audit Scotland will be increasing their fees by 3% for FY23/24.

5b. Audit Recommendations and Action – Progress Update

RS provided an overview of FLS's activity in regard to audit recommendations and related actions, advising that there were a number of longer term actions currently ongoing.

SHo commented on the Organisation Change Management report, advising that progress has taken longer than planned due to impacted personnel changes and required recruitment, whilst still continuing to deliver business as usual. New staff are now in place and being supported in their new posts and this will allow resources to be redirected in the near future to refocus on progressing actions.

MP sought clarification on Internal Audit's planned priority areas for FY23/24. KM advised that the FY21/22 mid-year review was approaching, within which Internal Audit would provide feedback and highlight any emerging key themes to inform FY23/24 planning.

Actions:

- **09/2022: MP & LT to consider any priority areas for Internal Audit review for FY23/24.**

6. Any Other Business (AOB)

On behalf of the ARC and FLS, MP expressed his thanks to Audit Scotland for their efforts and support over the past 3 years and wished MT and his team every future success.

Actions:

- **10/2022: RS to schedule ARC dates for FY23/24.**

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

Date of next meeting confirmed as Wednesday 14th December at 09.30.