



FORESTRY AND LAND SCOTLAND AUDIT AND RISK COMMITTEE

10.30, 23 March 2023, 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
Jennie Smith (JS), Deputy Head of Finance FLS
Rhondda Salmond (RS), Change Manager FLS
Kate Moffat (KM), Head of Internal Audit, SGIAD
Amy Grant (AG), Internal Audit, SGIAD
Hannah McKellar (HMck), Grant Thornton UK LLP (External Audit)
Angela Pieri (AP), Grant Thornton UK LLP (External Audit)
Celyn Paton, Secretariat Assistant FLS (Minutes)

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

Action Point Summary:

Action Point Ref	Description	Status	Owner
02/2020	Management Information & Financial System Project Update, including impact on timescales as a result of Covid-19	Closed but held as recurring action.	Michael Hymers
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 Management Board	Open	Simon Hodgson
01/2023	RS to update and publish revised Risk Appetite Statement in line with ARC feedback.	Open	Rhondda Salmond
02/2023	Director of Net Zero and Head of Digital Services to review Cyber Security Report	Open	Graeme Hutton/Dave Exeter

	from the Scottish Business Resilience Centre once published and identify any opportunities or issues for FLS.		
03/2023	SH to review Internal Audit timelines in line with business priorities to ensure realistic timeframes set to achieve progress on Internal Audit issues as required.	Open	Simon Hodgson
04/2023	TG to keep ARC members updated on capacity to meet External Audit timelines and raise any potential challenges/issues as appropriate.	Open	Tom Greenan
05/2023	Non-Exec Advisors to discuss and provide suggestions for deep-dive risk analysis at the July ARC meeting.	Open	Mark Pountain/Clea Warner/Therese O'Donnell/Jo O'Hara

1. PRELIMINARIES/INTRODUCTIONS

MP welcomed everyone to the March FLS Audit and Risk Committee (ARC) meeting, outlined the agenda and asked all to introduce themselves for the new External Audit attendees' first meeting. He then gave a brief overview of the current ARC approach to provide background and context for the new External Audit attendees.

Conflict of Interests

There were no conflicts 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 14 December 2022.

Matters Arising

It was agreed that Action Points 23/2021, 35/2021, 36/2021, 06/2022, 08/2022, 09/2022, 11/2022, 12/2022, 13/2022, 14/2022, 15/2022, 16/2022 and 17/2022 were closed.

06/2022: MP advised that FLS Non-Executive Advisors' (NXA) will collectively meet ahead of future ARC meetings to discuss proposed agenda and agree any additional insights or input for discussion. The future Governance Arrangements are also scheduled for discussion at the next Strategic Board meeting, taking place in early April 2023.

3. RISK

3a. New/emerging business and potential risks

SH provided a verbal update on new and emerging risks affecting FLS, initially reflecting on the cumulative effect of a number of already recognised risks which as a result, introduce potential new risks to the business.

He advised that FLS's FY 23/24 Business Plan had been submitted to the Minister for approval ahead of publication. Work on this has identified an increased risk around financial sustainability, predominantly due to current external economic pressures, increased operational costs and a

decrease in timber income. Scottish Government's (SG) financial position remains constrained, with all departments and agencies expected to contribute to resolution within the current year and going forward. Currently FLS has appropriate reserves in place to mitigate any immediate financial risk and work is ongoing to set realistic plans for future years.

Recognising the compounding effect of these financial risks, SH highlighted the potential impacts to the business, including reducing FLS's capacity for future investment, limiting programme deliverability and the ability to achieve the business' long-term objective of financial sustainability.

TG reiterated the long-term financial challenges the business now faces in order to achieve financial sustainability and the risks associated with this, recognising increased pressure from SG to move to a sustainable business position as quickly as possible.

MH acknowledged the First Minister's recent resignation and the current ongoing Scottish National Party's (SNP) leadership election, advising of the potential cabinet reshuffle and subsequent shift in current SG priorities in response to new appointments. He advised of the possible risks and business impact this could have, particularly surrounding SG finances.

SH highlighted continued pressure on staff to deliver programmes and business as usual requirements, advising that work was ongoing to assess current programme deliverability, scale back activities where appropriate and recruit and develop new and existing staff to try and alleviate some of these pressures.

Internal changes to organisational governance and business systems continues, in order to enable increased business efficiency. Although adequately reflected within the Risk Register, the compounding effect of these alongside the previously identified new and emerging risks can create uncertainty. Appropriate mitigating actions are in place to reassure the ARC that any risks to business are being consistently monitored and evaluated.

Finally, SH recognised the potential need to scale back current organisational ambition in line with the compounding effect of current cumulative risks, to ensure the business is operating within appropriate risk tolerance levels.

JO reflected on the increased financial pressures and the consequential increase of risk to other business areas this poses. She asked the ARC members to consider where they can provide the best advice and reassurance to the business to ensure the greatest degree of balance between risk and reward.

MP thanked SH for his update and recognised the increased financial risks and associated impacts this is having on the business.

3b. Review of FLS Risk Appetite Statement

RS advised that FLS management had taken the opportunity to review the current Risk Appetite Statement, incorporating previous feedback from ARC members in relation to how categories are defined and balanced alongside the current operating environment, with a clear representation of the tolerance levels the organisation is willing to accept and operate within.

She advised that subject to the approval of the revised Risk Appetite Statement from the ARC, a full review of FLS' Corporate Risk Register will be carried out to apply the adjusted tolerance

levels against risks, to ensure all risks are accurately defined and that we are operating within the agreed tolerance levels set.

RS asked the ARC if the revised statement adequately reflects the ongoing high-level risks the business faces and welcomed any feedback.

MP advised incorporating under 'Areas of Risk' in Annex 1 of the statement, a clear link between risk and the Corporate Plan to demonstrate how this in turn informs and supports SG's priorities. JO concurred.

Reflecting on SH's earlier comments regarding organisational ambition, JO recognised the need to adequately represent the balance between ambition and risk tolerance within the Risk Appetite Statement.

TO highlighted the use of the Risk Appetite Statement as a guide and framework for staff to work with, stressing the importance that staff have a clear understanding of how to implement and monitor the use of the statement across the organisation.

The ARC thanked RS for her efforts and agreed to the recommendations made.

Actions: 01/2023: RS to update and publish revised Risk Appetite Statement in line with ARC feedback.

3c. FLS Risk Register and update

RS advised that the FLS Corporate Risk Register and associated papers had been circulated for review by the ARC and welcomed any comments.

MP highlighted FLS 19, Staff Recruitment and Retention and the pressures involved. Outlining his work alongside the Queens Green Canopy, he recognised the potential to access a contribution from their Legacy Fund in conjunction with Scottish Forestry to help young people gain entry into the Forestry sector and offered pursuing this avenue subject to agreement by SH.

Commenting on FLS 20, Cyber Security, MP reflected on the circulated SEPA Cyber Attack Lessons Learned report and the intention that Scottish Business Resilience Centre would be producing a Cyber Security report for Scottish Public Bodies. MP asked that both the ARC and appropriate FLS staff review this report once published to provide further assurance to the organisation around Cyber Security controls.

The ARC thanked RS for her update.

Actions: 02/2023: Director of Net Zero and Head of Digital Services to review Cyber Security Report from the Scottish Business Resilience Centre once published and identify any opportunities or issues for FLS.

4. FLS RESERVES AND INVESTMENT PRIORITIES

TG gave a verbal presentation on FLS Reserves and Investment Policies, initially advising that discussions to clarify and protect current cash reserves to SG finance colleagues, ensuring appropriate financial business compliance and resilience have concluded.

He proceeded to outline key points with regard to FLS's cash reserves over the next 5 year period in line with the business planning process, including; operational expenditure will exceed income from FY 22/23 as timber income reduces and costs increase, meaning cash reserves will need to

be utilised to cover this deficit; the sensitivity of FLS's timber income on cash reserves; the difference in FLS's operational framework to other SG agencies with regards to trading income and associated accumulation of reserves; and that with good financial management, forecasts show that income should begin to exceed expenditure from FY 25/26.

TG advised that a Director led review on organisational efficiency and effectiveness to facilitate continuous business improvement is ongoing to help mitigate against risks and help achieve business sustainability.

The ARC thanked TG for his work and discussed the information provided, including considering clear justification of any cash reserves, additional income opportunities and potential for future SG funding through clear understanding of FLS's business model and demonstration of investment opportunities.

5. AUDIT

5a. Internal Audit – Progress Report

KM advised the ARC of changes within Internal Audit and Assurance's Senior Management Team, with Sharon Fairweather stepping down as Director of Internal Audit and Assurance and Jennifer Inglis-Jones acting as an Interim Director as of April 2023. SG to undertake an external recruitment process for the permanent Director position during FY 23/24. Pamela Wilkinson will take up the Deputy Director Post as of April 2023.

AG introduced the recent priority areas the team have been focussing on including an audit report on Contract Management and the Internal Audit Annual Plan proposal for FY 23/24. She advised that the reports had previously been circulated for review and welcomed any comment.

MP expressed concern as to whether FLS was setting itself realistic timelines to address particular issues, given various reservations raised in Internal Audit's reports. The ARC discussed the reports and recommendations made, suggesting the opportunity to review the timelines set out within the reports to achieve recommendations stated and provide further assurance to the organisation.

MH acknowledged that in response to previous Internal Audit feedback, Directors are now meeting on a monthly basis to enable continued dialogue across directorates and respective teams, to ensure a collective agreement of priorities and progress audit recommendations.

Actions:

03/2023: SH to review Internal Audit timelines in line with business priorities to ensure realistic timeframes set to achieve progress on Internal Audit issues as required.

5b. Internal Audit – 2023/24/Audit Plan

KM advised that Internal Audit's Annual Plan for FY 23/24 had been circulated for review and asked for comment.

SH thanked Internal Audit for their work and conveyed FLS's approval of the plan, welcoming a joint effort moving forwards.

The ARC agreed Internal Audit's FY 23/24 Audit Plan and fee.

5c. External Audit – Annual Audit Plan 2022/23

On behalf of the ARC, MP welcomed both AP and HM to the meeting.

AP introduced herself and HM, outlining the External Audit Team's set up for reference. Advising that the Annual Audit Plan FY 22/23 had been circulated ahead of the meeting, AP highlighted the following key points for consideration:

- Headline materiality has been based on total assets as most applicable way to set the organisations materiality.
- Four significant financial risks areas have been identified; Management override of controls, Risk of fraud in income recognition, Valuation of forest estate and land, Valuation of biological assets.
- A new audit standard, ISA 315 will be applicable for FY 22/23 which has added in further work required around IT system controls.
- Both Financial Sustainability and Vision, Leadership and Governance will be looked at as part of the wider scope and best value aspect of the audit.
- Realistic and clear audit timelines have been set out within the report and External Audit welcome working with FLS to achieve these.
- A thorough audit handover with Audit Scotland has taken place and as much assurance as possible has been provided for FLS's opening balances.

MP thanked Grant Thornton for their update and work on the Annual Audit Plan. MP raised a concern around how achievable the timeframe was and looked for further assurance that both FLS and Grant Thornton had the appropriate resources and capacity to meet the proposed deadlines.

AP outlined that Grant Thornton have resourced appropriately and were confident that with clear communication, they would be able to meet the stated deadlines. She did advise that given the addition of ISA 315, there was an element of uncertainty as to how much resource would be needed to achieve these requirements but remained hopeful that capacity was in place.

TG recognised the importance of clear and regular communication with Grant Thornton and reflected on the significant challenges the audit process places on the organisation. Provided any issues were identified and communicated quickly, he assured the ARC that the Finance Team would look to prioritise work as appropriate and was hopeful that timelines could be met in relation to the statutory elements of the plan. TG contemplated the capacity for enabling the wider scope and best value aspect of the audit.

The ARC approved the Audit Plan and Audit fee for FY 22/23.

Actions:

04/2023: TG to keep ARC members updated on capacity to meet External Audit timelines and raise any potential challenges/issues as appropriate.

5d. Audit Recommendations and Actions – Progress Update

RS advised that work was ongoing to address and embed audit recommendations and actions across the organisation. FLS's Management Board meets regularly with Internal Audit to update on progress and report any potential issues. The ARC thanked RS for the progress update.

6. 2022/23 ANNUAL REPORTS AND ACCOUNTS

6a. Preparations and update

JS gave a brief verbal update to provide assurance to the ARC on the ongoing preparations for the Annual Report and Accounts (AR&A), advising that an update had been previously circulated for review. JS outlined that the interim statutory audit is near completion, and lessons learned from the FY 21/22 AR&A have now been embedded in the process for this year with a clear timeline of responsibilities agreed and shared with key staff. JS also highlighted the experienced team in place who will be managing the process and the implications of a number of changes to the accounting policies for FY 22/23.

MP sought clarification as to whether any additional risk associated with off-payroll appointments needed further consideration.

JS advised that the off-payroll appointments was a new policy area for FY 22/23 and FLS would work with Grant Thornton to ensure data produced is appropriate and accurate.

The ARC thanked JS and the Finance Team for their work and endorsed the changes to the policies as set out in the paper.

7. ANY OTHER BUSINESS (AOB)

RS requested if any outstanding expense claims could be submitted as quickly as possible in line with end of year accounts.

SH gave a brief update on the ongoing Management Information Project (MIP), recognising that the project was well underway and updated systems and processes should be in place by the beginning of FY 24/25.

MP recognised that this would be LT's last ARC meeting, thanked her warmly for her support, inputs and contributions over her appointed period, and wished her luck in her future endeavours.

Actions:

05/2023: Non-Exec Advisors to discuss and provide suggestions for deep-dive risk analysis at the July ARC meeting.

Meeting between Non-Executive Advisors and Grant Thornton / Internal Audit

Date of next meeting confirmed as Wednesday 5th July 2023 at 10.00.