



FORESTRY AND LAND SCOTLAND AUDIT AND RISK COMMITTEE

10.30am, 5 March 2025, Apex 1 (Dewar Room) & MS Teams

Present:

Members: Lyndon Jones (LJ), Chair, Non-Exec
Jo O'Hara (JO), Non-Exec
Clea Warner (CW), Non-Exec
Therese O'Donnell (TO), Non-Exec

Attendees: Kevin Quinlan (KQ), Chief Executive, FLS
Tom Greenan (TG), Director of Corporate Services & Transformation, FLS
Colin Buchanan (CB), Senior Finance Manager, FLS
Michael Hymers (MH), Head of Corporate Office, FLS
Rhondda Salmond (RS), Change Manager, FLS
Kate Moffat (KM), Head of 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)
Melanie Mathiasen, EA to the Director of Land Management and Regions, FLS
(Minutes)

Action Point Summary:

Action Point Ref	Description	Status	Owner
15/2024	JS to request index of valuations from valuers.	Open	Colin Buchanan
19/2024	MH to create joint action tracker with Internal Audit, ensuring these accurately align in content and format.	Open	Michael Hymers
21/2024	MH to provide monthly updates on the ASPEN Project to the Non-Executives.	Open	Michael Hymers
24/2024	RS to table agenda item for next meeting to complete a stocktake on outstanding audit report actions.	Open	Rhondda Salmond
25/2024	MH to provide update on outstanding payroll audit actions	Open	Michael Hymers

26/2024	MH to seek clarification from Director of Net Zero on confidence to complete relevant action by 31 March 2025 and confirm if cyber security training is mandatory.	Open	Michael Hymers
27/2024	KQ and TG to meet with Internal Audit to address outstanding Business Sustainability actions, including whether to absorb in to “Fit for our Future” programme.	Open	Kevin Quinlan / Ton Greenan
28/2024	FLS to introduce and maintain an Issues Log.	Open	Michael Hymers
29/2024	Revised Corporate Risk Registered to be shared with Non-Executives for input prior to next ARC meeting.	Open	Rhondda Salmond
30/2024	Consider improved quantification of risk-appetite statements and exploration of 3rd sector organisation risk statements.	Open	Rhondda Salmond
31/2024	LJ to investigate the role of the Non-Execs with respect to FLS governance structure.	Open	Lyndon Jones
32/2024	RS to organise a pre-meet between LJ and KM in advance of all future ARCs.	Open	Rhondda Salmond

1. PRELIMINARIES/INTRODUCTIONS

LJ welcomed everyone to the FLS Audit and Risk Committee (ARC), introductions followed. LJ reminded the Non-Execs of their role to actively challenge and hold FLS to account.

Conflict of Interests

No conflicts of interests were 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 27 November 2024.

Matters Arising

It was agreed that Action Points 02/2020, 18/2024, 20/2024, 22/2024 and 23/2024 were closed. The following Action Points were discussed and updated.

15/2024 – Valuations: LJ noted that this Action Point has been carried forward twice. CB explained that Jennie Smith, Financial Controller, FLS has been off for some time but he confirmed that a report would be ready for the next ARC meeting.

18/2024: Reports: Agreement for recommendations to be amalgamated where possible – Action Point closed

19/2024 – Joint Tracker: After discussion with the Executive Leadership Team and Internal Audit, MH will implement the joint tracker at next ARC. Action Point carried forward

AP 24/2024: RS to table agenda item for next meeting to complete a stocktake on outstanding audit report actions.

21/2024 – Aspen Project updates: MH to provide monthly updates to the Non-Execs on progress.

3. AUDIT

3a. Internal Audit – Progress Report

KM provided an overview of progress. She explained that the Regional Management report was a significant piece of work, consisting of six separate report elements. IA has currently completed about three quarters of their work, with Harvesting and Timber hopefully to be completed end of March. KM noted that this would be AT's last ARC as Amy Beveridge is returning from maternity leave. Everyone thanked AT for her work and dedication.

JO had a query in relation to an outstanding IA recommendation on payroll; why did it remain outstanding. MH will double-check but his understanding is that it has been completed since the follow up report was completed. There was a delay due to not having someone in the role of Pay and Rewards Manager at the time.

AP 25/2024: MH to provide update on outstanding payroll audit actions.

TO has concerns with the proposed timetable for some of the risks in the Management Action Plan in the Cyber Security report. There are a number of actions due for completion by the end of March 2025, leaving little time for completion. She also queried whether the training that has been put in place is mandatory as this is not clear from the update. MH agreed to speak to Graeme Hutton, Director of Net Zero for clarification.

AP 26/2024: MH to seek clarification from Director of Net Zero on confidence to complete relevant action by 31 March 2025 and confirm if cyber security training is mandatory.

CW wanted to know if FLS are confident that they can meet the various deadlines. TG confident they can be met.

KM highlighted that there is a delay in reports coming to ARC as they now go to the Executive Leadership Team meetings first for discussion. KM reported that IA has a two week KPI from drafting a report to the final report. All the KPIs are showing red as a result. LJ asked how to meet deadlines for the coming FY. KQ made the point that process shouldn't take priority over substance. He also noted that the ELT meetings are now every two weeks so fairly frequent and he is keen that appropriate actions and related timelines are outlined in the management response.

3b. Internal Audit – 2025/2026 Audit Plan

KM presented the Internal Audit Plan for 2025/2026 outlining that the proposed themes had been developed in discussion with FLS, including discussion at the ELT. No issues raised with the proposed audit plan.

3c. Audit Recommendations and Actions – Progress Update

RS provided a brief update and opened the floor for questions.

JO noted that some of the dates were inconsistent in relation to Aspen “go-live” and queried why some of actions had gone from green to red in a very short space of time. MH explained that it came down to timings, nothing material had changed but meeting the deadline on some might prove difficult.

JO also noted that the action on Governance is still outstanding. It didn’t get completed last year mainly because of a lack of staff capacity but progress has been made which both JO and CW recognised. CW suggested that for future updates RS provide a more detailed narrative to show the good work that has been done on it.

There was discussion on how to proress the Business Sustainability outstanding actions. KQ set out the two options; either leave it recognising that it’s a ongoing substantial project with long term implementation dates or have it wrapped up in the Transformation project. Internal Audit would still need to monitor progress, but this would bring information together and allow progress to be visible and monitored.

KQ stated that FLS needs an overall approach to progressing strategic matters, as there remains a legacy of some muddled and multiple objectives. He articulated that having clearer objectives associated with value streams will help identify and enable future projection on the revenue side whilst understanding and addressing increasing costs. The building blocks help to reach financial sustainability have been laid out in the “Fit for our Future” programme but more work to be done. The question remains how to capture progress. LJ reflected monitoring forecast variables such as how much ASL FLS receive might be one option.

When the question of IA follow up work was asked, KM provided an example of having outputs demonstrating business acumen has increased in the organisation would be an evidence based approach to show progress of implementation.

JL reflected that the Business Sustainability audit rating was the worst of the six Internal Audit reports so remains significant risk remains to FLS if not progressed.

KQ suggest GP and TG will meet Internal Audit colleagues to discuss and agree the best way forward and how to address the recommendations, including whether or not actions can be absorbed in to the planned programme.

AP 27/2024: GP and TG to meet with Internal Audit to address outstanding Business Sustainability actions, including whether to absorb in to “Fit for our Future” programme.

4. RISK

4a. New/Emerging Business and Potential Risks

KQ provided a horizon scanning on risks and opportunities to FLS.

Timber is a high volume, low value commodity with FLS mainly a price taker in the timber market. Timber prices are volatile and are impacted by the exchange rate. Currently the Swedish timber mills, which are the biggest timber exporter to the UK, are facing significant issues.

FLS are on the cusp of finalising proposals to introduce repowering of wind farms that are reaching initial end of term leases. This includes seeking advice on concentration risk relating to energy providers to address potential risk of agreements sitting with one provider.

We continue to be assigned Government financial support, with an allocation of £17m via the Annual Subsidy Limit (ASL), however it is anticipated with ongoing pressures across the public sector this is likely to reduce going forward. Engagement continues with SG to discuss funding for Natural Capital projects, including: peatland and rainforest restoration, as FLS would be unable to continue to deliver these projects without it.

KQ is clear that there needs to be a shift from FLS receiving a general subsidy to ensuring SG are clear on what public services the subsidy is paying for; Visitor Services, Natural Capital etc so any reduction in the subsidy would be a political choice and impact FLS's ability to deliver these types of initiatives.

KQ attended a meeting leads and others from the Non-Department Public Bodies group to discuss financial controls. SG would like to see head count across the public sector to go back to pre-covid levels. KQ made the point that for public sector organisations that are able to generate their own income it would be restrictive and counterproductive. He also reiterated that we want to increase profits and it might be necessary to increase head count to enable us generate more income.

KQ outlined progress on the One FLS – fit for the future Transformation project, with the goal of being financially sustainable in 27/28. Visitor Services generates a big loss so recalibrating our trail networks is a priority. Currently we are forecasting a deficit this FY of £5m which is an improvement on last FY, mainly achieved through cost control and windfall revenue from renewables.

He concluded by saying that internally FLS has a lot to do but externally market conditions are looking optimistic so overall message is tentatively positive.

JO commended KQ on his presentation for being very clear but asked what if any resilience did FLS have to deal with global shocks such as recently imposed tariffs on Canada? KQ wasn't sure on their impact but a transatlantic tariffs scenario would be a more worrying prospect. He emphasised that we are constantly engaging with our customers and despite headwinds, mills are continuing to invest and expand. The renewables sector should also provide diversification of income alongside the expansion of Newton Nursery has increased our ability to produce plants making us more self-reliant and reducing our costs. JO asked if Newton Nursery would be selling plant into the private sector which KQ confirmed that this would be the case longer-term.

CW raised the issue of SG looking at tighten headcount control and how FLS would manage that. KQ reiterated that FLS is a commercial business. We need to demonstrate that we can run the organisation well and increase our profit, that would be a strong argument for not having restrictive headcount controls. There is already workforce planning underway to identify the appropriate staffing levels needed now and going forward.

4b. FLS Risk Update, including Draft Risk Appetite Statement and Deep Dive

RS started the session on risk by laying out how the organisation's risk appetite had evolved, recognising that there are areas where a less restrictive approach to risk would be appropriate and help generate better financial outcomes, especially in commercial activities while maintaining a strict aversion to risk in areas such as Health and Safety.

LJ made the point to separate our risks and issues and to have a separate Issues Log. He also queried why all the mitigations were monitory. This did not seem appropriate against the highest risks.

AP 28/2024: FLS to introduce and maintain an Issues Log.

JO asked how the Risk register is used in practice. RS confirmed that it had practical applications, for example being used as part of the Business Planning process, matching value streams to risks. JO suggested a more explicit link between the risk statement categories and the risk score (impact x likelihood), and / or to quantify risk impacts in terms of numbers (eg. % turnover or number of working days lost).

CW asked if the Risk Register had been benchmarking against other SG public bodies? CW suggested looking at the third sector's approach to risk.

LJ queried with KQ why the Risk Management systems were not working. KQ disagreed, indicating that there is always scope for improvements however the organisation is embedding and monitoring environmental risks and reputational risks, but it would be good for the risk register to be rationalised. FLS would seek input from ARC on this. LJ and JO noted that there appeared to be an action to remove red risks from the CRR, KQ explained there was a rationale for this i.e. ideal number of risks on CRR target.

AP 29/2024: Revised Corporate Risk Registered to be shared with Non-Executives for input prior to next ARC meeting.

AP 30/2024: Consider improved quantification of risk-appetite statements and exploration of 3rd sector organisation risk statements.

5. BREAK

6. 2024/25 ANNUAL REPORT AND ACCOUNTS

6a. Annual Audit Plan 2024/25 and progress update

AP went through the audit plan and timelines, highlighting the change for the coming FY with signoff in December. HM highlighted key issues from their report, a short discussion on materiality ensued. CB is looking into the matter but no concerns were raised at this stage.

LJ thanked AP and HM for the update.

TG highlighted that both Internal and External Audit both had planned activity to carry out audits relating to Aspen. He indicated that care would need to be taken not to overlap activity, particularly as this would place additional pressures on the organisation and staff to introduce and embed the new system whilst also meeting audit requirements. Both elements will require careful scoping.

KQ sought to understand why the organisation has a red rating against risk to Financial Suitability given that only 10% of our funding comes from SG and the rest we generate ourselves. There are

SG Public Bodies who are 100% reliant on SG funding. AP explained that a red rating is standard for all public bodies. External Audit agreed to make that clearer in the report going forward.

JO questioned why the risk around Leadership was rated amber. External Audit explained that it's a default rating based on receiving a limited annual assurance rating over multiple years.

6b. FLS Preparations and Update

CB reiterated the information provided by Grant Thornton, indicated that resources were in place to deliver the agreed timeline. Work continues to progress the interim audit and provide associated materials.

7. ARC SELF-ASSESSMENT

LJ thanked everyone who responded to the self assessment questionnaire, with two clear areas of focus. The Non-Execs would appreciate ARC papers to be circulated asap, a steady streams of papers would be better alongside a final pack containing all the papers. The second point was a request to receive the minutes asap.

AP 31/2024: LJ to investigate the role of the Non-Execs with respect to FLS governance structure.

8. AOB

There was one area of AOB raised re: Potential Data Breach

MH announced that the organisation had suffered a potential major internal data breach involving our HR system, iTrent. An investigation to ascertain what happened has been launched. Initial conclusion is that the configuration of the software appears to have caused the issue. However, until the investigation concludes further information cannot be provided.

LJ concluded the meeting by thanking everyone.

Action 32/2024: RS to organise a pre-meet between LJ and KM in advance of all future ARCs.

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

This meeting was held but not minuted.

10. CLOSE

The date of the next ARC meeting is 27 May 2025.