



FORESTRY AND LAND SCOTLAND AUDIT AND RISK COMMITTEE

10.00am, 5 July 2023, Silvan House and MS Teams

Present:

Members: Mark Pountain (MP), Chair, 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
Donna Mortimer (DM), Chief Financial Officer FLS
Jennie Smith (JS), Financial Controller FLS
Rhonda Salmond (RS), Change Manager FLS
Kate Moffat (KM), Head of Internal Audit, SGIAD
Amy Grant (AG), Internal Audit, SGIAD
Hannah McKellar (HM), Grant Thornton UK LLP (External Audit)
Sophia Christopoulos, Secretariat Assistant FLS (Minutes)

Others: Graeme Prest (GP), Director of Land Management & Regions

Apologies: Angela Pieri (AP), Grant Thornton UK LLP (External Audit)

Action Point Summary:

Action Point Ref	Description	Status	Owner
02/2020	Management Information & Financial System Project Update.	Open	Donna Mortimer
34/2021	SH 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
06/2023	MH to ensure that an appropriate mechanism is resourced to include cyber- security training as part of FLS staffs annual mandatory training programme.	Open	Michael Hymers
07/2023	Director of Land Management and Regions to provide update to ARC on balance scorecard, timber production, forecasting and related income.	Open	Graeme Prest

08/2023	Director of Corporate Services to engage with MP and JO on the development of strategic and partnership communications on priority work programmes across FLS that may impact stakeholders.	Open	Michael Hymers, Mark Pountain & Jo O'Hara
09/23	Director of Corporate Services to share the draft Annual Report and Accounts FY 22/23 with the Non Executives.	Open	Michael Hymers

1. PRELIMINARIES/INTRODUCTIONS

MP welcomed everyone to the July FLS Audit and Risk Committee (ARC) meeting, outlined the agenda and asked all to introduce themselves. He welcomed DM back and recorded thanks to Tom Greenan and Jennie Smith for their contributions to the ARC. He welcomed SC whose first ARC this was, and recorded thanks to Celyn Paton for her contribution as Secretary. He noted apologies from Angela Pieri.

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 23 March 2023.

Matters Arising

It was agreed that Action Points 36/2021, 06/2022, 01/2023, 02/2023, 03/2023, 04/2023 and 05/2023 were closed. The following Action Points were discussed.

01/2023 – Risk Appetite: Following RS's update that the revised FLS Risk Management Policy and Risk Appetite statement had been published on the website (Action from March 2023), MP asked what was meant by 'promotion via the Management Board'? RS explained that she and DM are working together going into the next round of business planning, including risk tolerance and appetite levels. This risk-based approach aims to improve financial sustainability and will be linked to the corporate plan and outcomes. MP thanked RS for the update and said it sounds like a developing process.

02/2023 – Cyber Security: Following FLS's review of SRBC's Cyber Security Report, and in respect of FLS's Cyber Action plan, MP strongly advised that R10 action be amended to read, 'Appropriate ongoing and regular cyber security training for all staff *must* be reintroduced', rather than '*should*'. SH agreed, adding that, though it can take a while to establish organisation-wide mandatory training, it was important that the tone of this is definitive. MH explained that Learning & Development (L&D) are currently at capacity delivering training to support priority work areas, including Health and Safety. As part of considering the ongoing training delivery programme, consideration will be given to sourcing and delivering this training via alternative routes and delivery models.

Action:

06/2023: MH to ensure that an appropriate mechanism is resourced to include cyber- security training as part of FLS staffs annual mandatory training programme.

3. RISK

3a. New/emerging business and potential risks

SH provided a verbal update on new and emerging risks affecting FLS, stressing the complexity of the external environment. He highlighted four key areas, including fluctuation demand and timber process; staff recruitment and training; wider Scottish Government (SG) financial pressures; and political commitments around climate and biodiversity programmes. Key points included that operational income (timber sales) was down to £106m versus £124m in 2021/22, the impact of Storm Arwen, SG reducing the Annual Subsidy Limit (ASL) by £6m, inflationary pressures, including the fact that FLS's salary bill had increased by £3.5m in 2023 and was forecast to increase by a further £3m in 2024. He concluded that all these pressures will pose a challenge in terms of business planning for FLS going forward in to FY 24/25, and potentially threaten FLS's financial sustainability beyond. FLS was actively reviewing its balance of operational activity to support its long-term sustainability, including investment in peatland and renewable energy.

JO asked what impacts such pressures could have on FLS finances, particularly reserves. SH responded that if SG withdraw all or part of the ASL then FLS will need to consider how reserves are used to continue to fund priority programmes. MH clarified that SG has no mechanism by which they could access/use FLS reserves and that FLS is distinct from other governmental agencies in this sense.

JO advised unpacking the risks and the potential knock-on effect these could have on FLS partnerships, particularly with NatureScot. SH added that guaranteed and advanced funding is paramount when establishing multi-year partnerships and associated agreements and contracts. DM confirmed that these wider impacts will be considered as part of the scenario planning and development of business planning.

3b. Deep Dive: Timber Sales Forecast & Risk

MP introduced the item by thanking Graeme Prest in advance for his presentation to give the ARC insight into one of the key areas of operational and financial risk, namely timber sales and forecasts, particularly in the context of aiming to achieve long-term financial sustainability given current political and economic strategic factors.

GP welcomed the opportunity, and led the presentation, highlighting key issue areas and forecast, outlining the cyclical nature of timber prices and that the production forecast is based on forest inventory. He reflected on pressures in the sawmill and timber market, and highlighted the need to strike the right balance as far as possible between forward selling and standing sales. He also emphasised the need to take corrective action early in order to compensate for any shortfall in volume, for example by conducting spot sales. These spot sales can be used to offset any unforeseen shortages that occur outside of the planned sales on the open market, recognising the importance of timing and the competition.

The Land Management Leadership Team are utilising more detailed market and sales data, including lagging and leading indicators, to allow the team to identify weak points, reduce bottlenecks, and put alternative measures in place. This is key for identifying problems earlier, and providing more warning so as to take corrective action. The current challenges created by

recruitment and training and the subsequent effect this has on procurement of supplier services were echoed by GP.

Thanking GP for his presentation, MP opened up the meeting for wider discussion. In reference to the scorecard, CW asked at what point will the forecast signal intervention was required to allow timely corrective action. GP responded that come Autumn, his team will have a clearer picture on whether the planned spot sale and despatch have mitigated current concerns. TO asked whether prices at spot sales tend to be cheaper than at standing sales, to which GP replied that standing sales are better but timing is key. The general market conditions and the level of demand are more significant than the value of the timber. TO recognised the potential impact of spot sales, but asked at what point timber-to-market for 2023/2024 would become 'red' against forecast/budget? GP responded that the critical indicators would become evident after end Q2.

JO acknowledged that other agencies, including Scottish Forestry and other departments, will be facing similar financial and delivery pressures and asked whether this placed FLS at further risk. GP replied that FLS had been working closely with others and in this current FY there were no issues relating to land management plan approvals, however Scottish Forestry also have a significant amount of new staff. Furthermore, discussions were ongoing to consider opportunities to simplify land management plans as they have become more weighty and complex. MH added that a Scottish Forestry priority is replanting, rather than wider land management.

GP and DM emphasised that the revised approach to data monitoring and reporting demonstrates the reprioritisation of performance-orientated improvement within FLS; the scorecard has been introduced at all high level meetings, lending it legitimacy, and is viewed as a tool that can help FLS manage limited resources. This was further supported by MH who described how the scorecard is gaining traction in the Land Management Directorate to such an extent that there is a view to change corporate performance reporting and performance models to replicate the scorecard approach and reduce duplication. This could then be rolled out across the directorates.

MP thanked GP for his presentation and acknowledged that the use of management tools will garner critical data and inform decision making. JO proposed that a future discussion with the ARC around inflation and interest in the context of standing sales would be beneficial.

Action:

07/2023: Director of Land Management and Regions to provide routine update to ARC on balance scorecard, timber production, forecasting and related income to help inform the ARC's understanding of longer term sustainability and related decisions.

3c. FLS Risk Register and Update

RS provided an overview of the corporate Risk Register, reflecting that details are being reviewed to correlate with new reporting data and the business planning process. Details of the revisions will be included on the risk update provided to the ARC at the next meeting.

The choice of topic for the Deep Dive at the next ARC meeting in October was raised; all agreed that workforce planning and capacity are pertinent areas of discussion, particularly as this has not been explored with the current group of Non-Executives, and that more specificity is needed.

MH and SH agreed that the organisation's capacity, while relevant to the discussion, was too broad a topic and that the more discrete issues of workforce planning, such as skill gaps, recruitment and retention, are more relevant to ARC.

CW asked whether the wider issue of capacity and the specific issue of recruitment could be dovetailed together and examined in terms of risk by management. CW expressed concern that if this is not done early enough and before the next ARC meeting, then it may be too late to take corrective action. MH agreed and responded that the Resource Management Board (RMB) has been established to manage this and details can start to be reported via the Strategic Advisory Board update.

JO highlighted the need to consider FLS's reputation and the risks associated with prioritising certain programmes over others and the impact this could have on partnerships. Work on strategic and partner comms is needed to manage this issue, and MP and JO said they are happy to help MH with this. MH agreed, reinforcing that any business planning decisions regarding the reallocation of resources or reprioritisation of programmes must include discussions with effected stakeholders. SH added that this ties in with managing comms with SG as their role significantly impacts FLS priorities and partnerships.

Action:

08/2023: Director of Corporate Services to engage with MP and JO on the development of strategic and partnership communications on priority work programmes across FLS that may impact stakeholders.

4. AUDIT

4a. External Audit – Management Report

HM advised that the draft Annual Report and Accounts FY 22/23 had been submitted on time by FLS and the audit programme was now underway. She described how this is detailed work, including sampling, and that they have been liaising with the finance team on any queries. They are on track for approval despite the steep learning curve of the first audit year. JS commented that there were some teething issues when the reports were handed over, as they did not come through in the format they were expecting, so they were currently working together to address this.

MP then brought forward FLS's update on the Annual Report and Accounts to continue the discussion.

2022/23 Annual Report and Accounts

JS provided an update on the production of the draft Annual Report and Account FY 22/23, providing an overview of the key areas. She highlighted that there were a number of improvements to the data presented and key differences in relation to the information presented in the previous year, including FLS' net worth which has increased due to the value of the biological assets and renewables income.

DM highlighted that we can always expect the natural capital to go up and that this needs to be brought out more in the accounts. DM said she will be looking at this as a discrete piece of work, to support reporting and presentation of the Annual Report and Accounts in future years.

MP asked for an update on the timetable for signing off the draft Annual Report and Accounts, requesting that, although in draft format, without formatting and the audit not yet complete, a copy is shared with the Non-Executives to consider.

Action:

09/23: Director of Corporate Services to share the draft Annual Report and Accounts FY 22/23 with the Non Executives.

4b. Internal Audit – Progress Report

Following an introduction by KM, AG presented an overview of the Internal Audit work programme, highlighting that all reports had now been completed and delivered for the FY 22/23 and work was underway on scoping the agreed work programme audit areas for FY 23/24.

Since the last meeting a further assurance report had been completed on Data Governance and Management, with an assurance rating of limited.

JO asked how common it is for an organisation as ‘information rich’ as FLS to achieve a limited assurance opinion on data governance; KM responded it is fairly common, with information shared with FLS on opportunities to learn from other agencies and departments to inform our management actions in response to the recommendations.

4c. Internal Audit – Annual Assurance

KM presented an overview, indicating that annual assurance opinion for FY 22/23 was limited. SH expressed his disappointment at the limited annual assurance rating, highlighting that a number of improvements had been implemented in response to assurance and advisory recommendations. KM responded that the assurance opinion was considered with this in mind, as they are aware that influence and change takes time. She emphasised that it is *how* this change is understood and permeated throughout FLS, which effects the assurance opinion both now and over future years. KM referred to AG’s upcoming work, wherein audit activity will take place across FLS which will give an indication as to how decisions and messages are filtered down, understood and embedded throughout the wider organisation.

It was recognised that there were a number of positives in FLS, and KM used the Management Information Platform (MIP) Project as an example of a well-developed, mature project that positively informs the assurance opinion. MH acknowledged the advantages of this year’s audit programme, outlining how it provides more reliable insight, feedback and monitoring of change and its effects within FLS.

MP touched on the Director of Internal Audit and Assurance’s Quarterly Bulletin, which includes the levels of assurance received by different public bodies, highlighting the importance of how this opinion is viewed and understood organisation-wide. He noted the definition of ‘limited assurance’ and expressed concern that of 25 public bodies, FLS was one of only two receiving a ‘limited assurance’ opinion, whereas 9 had received a ‘substantial assurance’ opinion, and 14 a ‘reasonable assurance’ opinion. TO elaborated on this by describing the importance of education and engagement within FLS, so that staff can understand changes, why they have been implemented and how they can impact them. MH acknowledged that not enough people within FLS have a true sense of how their activity is influencing the overall picture, and that there is a need to foster more collective accountability.

JO reiterated the need for organisation-wide understanding of the assurance opinion and how it impacts the reputation of FLS within SG.

MP commented that notwithstanding any factual issues, external perception of any organisation is important, and FLS must work to improve on its opinion grading. In discussion with KM, part of the issue seemed to be the inability of FLS to close on agreed actions in identified timelines, or to be over-ambitious in agreeing deadlines.

SH affirmed the need for a more holistic and cohesive approach, though stressed that not only is FLS a geographically and functionally broad organisation, any disconnect was compounded significantly by the pandemic. Regardless, all agreed that programme of work in response to the annual assurance rating was imperative. KM confirmed that this would help lead FLS out of a limited assurance opinion, by improving interconnectedness between staff and awareness of ideas and changes at all levels.

4d. Audit Recommendations and Actions – Progress Update

RS began by explaining how some reports came in 18 months ago and therefore the timelines for delivering actions were developed at a time when the pressures on the agency were different to those currently being managed. As a result, all FLS Directors have been requested to review outstanding actions and engage and agree with Internal Audit in any changes to delivery and timing.

5. Any Other Business (AOB)

SH provided an overview of a number of extensive wildfires across multiple locations on Scotland's national forests and land, intensified by the prolonged period of no rain and high temperatures. GP explained how the fires went into the root system, igniting peat that kept burning and therefore flaring up. All were now under control, which had been helped by the change in weather, wetting vegetation and soaking into the peat.

GP described the dedicated response from FLS staff to support the Fire and Rescue Service to manage the wildfires, which was also recognised by the Cabinet Secretary. MH added that FLS are doing an internal review, alongside colleagues in wider SG, to review lessons learned and what can be done to reduce the risk in future years, particularly as the risk increases due to changing weather patterns linked to climate change.

7. MEETING BETWEEN NON-EXECUTIVE ADVISORS AND GRANT THORNTON UK LLP / INTERNAL AUDIT

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

8. CLOSE

Date of next meeting confirmed as Wednesday 4th October 2023 at 14.00.