



FORESTRY AND LAND SCOTLAND AUDIT AND RISK COMMITTEE (ADDITIONAL MEETING)

10:30am, 11 March 2024, Apex 1 (Livingstone Room) & MS Teams

Present:

Members: Mark Pountain (MP), Chair, Non-Exec
Clea Warner (CW), Non-Exec
Therese O'Donnell (TO'D), Non-Exec
Jo O'Hara (JO), Non-Exec

Attendees: Simon Hodgson (SH), Chief Executive, FLS
Michael Hymers (MH), Director of Corporate Services, FLS
Graeme Prest (GP), Director of Land Management and Regions, FLS
John Mair (JM), Director of Commercial Development, FLS
Graeme Hutton (GH), Director of Net Zero, FLS
Jennie Smith (JS), Deputy Head of Finance, FLS
Colin Buchanan (CB), Senior Finance Manager, FLS
Rhonda Salmond (RS), Change Manager, FLS
Pamela Wilkinson (PW), Deputy Director Internal Audit, SGIAD
Kate Moffat (KM), Head of Internal Audit, SGIAD
Alison Thomson (AT), Internal Audit, SGIAD
Hannah McKellar (HMck), Grant Thornton UK LLP (External Audit)
Angela Pieri (AP), Grant Thornton UK LLP (External Audit)
Calum McNicol (CM), Corporate Development Assistant, FLS (Minutes)

Apologies: Donna Mortimer (DM), Chief Financial Officer, FLS
Amy Beveridge (AG), Internal Audit, SGIAD

Action Point Summary:

Action Point Ref	Description	Status	Owner
02/2020	ASPEN Project Update.	Open	Donna Mortimer
02/2024	Graeme Hutton to investigate access to SG Cyber Security Resilience and Risk courses for ARC members.	Open	Graeme Hutton
03/2024	Graeme Hutton to circulate website details for the NCSC Cyber Security Toolkit for Boards.	Open	Graeme Hutton
04/2024	Pamela Wilkinson to share information on how to access training and networking arrangements via the GIAA.	Open	Pamela Wilkinson

05/2024	Jennie Smith to contact John Clegg & Co. to ascertain contingency arrangements in respect of valuer absence.	Open	Jennie Smith
06/2024	KM to provide details of audit report action trackers from other organisations for consideration by FLS.	Open	Kate Moffat
07/2024	RS to present options on audit report action trackers for consideration at the next ARC meeting.	Open	Rhondda Salmond
08/2024	Secretariate to table an update on Transformation Programme for the next ARC meeting.	Open	Rhondda Salmond
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.	Open	Rhondda Salmond

1. PRELIMINARIES/INTRODUCTIONS

MP welcomed everyone to the March FLS Audit and Risk Committee (ARC), led an introduction of those present, outlining 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 meetings held on 5 Dec 2023 and 9 Feb 2024.

Matters Arising

It was agreed that Action Points 11/2023, 12/2023 and 1/2024 were closed. The following Action Point was discussed:

06/2023 – Cyber-Security Training: GH provided an update on cyber security training, advising that two courses covering a range of subjects were available, underpinned by other upskilling and support materials. Dialogue with the Scottish Government (SG) as per the ARC meeting in December 2023 has resulted in progress on the introduction of mandatory cyber security training as part of staff induction and it is planned that this will be in Quarter 1. This action was now considered closed.

He also highlighted that SG are currently running courses on Cyber Security Resilience and Risk for board members of public bodies. GH will investigate if this can be made available to ARC

members, and if yes share details on how to access. The importance of regular mandatory cyber security training was emphasised, particularly given recent and ongoing developments of artificial intelligence.

Action:

02/2024: GH to investigate access to SG Cyber Security Resilience and Risk courses for ARC members.

GH also advised that the National Cyber Security Centre (NCSC) has a Cyber Security Toolkit for Boards and will share details.

Action:

03/2024: GH to circulate website details for the NCSC Cyber Security Toolkit for Boards.

PW indicated that UK Government Internal Audit Agency (UKGIAA) often run courses for public body members and expressed a willingness to connect those interested with relevant parties.

JO'H thanked GH for informing and requested that PW assists in linking in with UKGIAA. CW also expressed interest.

Action:

04/2024: PW to share information on how to access training and networking arrangements via the GIAA.

GH notified the committee of a cyber security incident in February which was managed in line with the Cyber Incident Response Plan. No information was breached due to protection measures in place prior to the attack. GH commended the current response plan for its resilience under live testing and stated that there would be a committee meeting by the end of March 2024 to discuss the incident and lessons learned.

3. ANNUAL REPORT & ACCOUNTS FY 23/24 – PREPARATION

3a. Progress Update

Grant Thornton and FLS assured the ARC on joint activity and agreed plans to meet the deadline of producing an Annual Report & Accounts (ARA) 2023/24 draft by August 2024.

AP stated that follow-up is due with FLS lead in the coming weeks. This will include an introduction meeting with FLS' new valuers, John Clegg & Co., to confirm which tests are to be undertaken.

JS presented progress thus far, supporting previous statements from HMCK, and indicated that they were content with the work undertaken by Grant Thornton. JS further stated that, although a key member of staff had recently left FLS, there will be no affect to production of financial statements or producing the draft. She stated however that work may be required front end and that they will be working with RS & MH to ensure those involved are aware of which duties are assigned to whom.

It was indicated that there are no major issues with the interim audit and "lessons learned" from the approach in the previous year had been addressed, including programming additional

meetings to improve communication. John Clegg & Co. (JC&C) are taking a different approach than with the previous valuer which will ultimately lead to variances. Decreases in land and biological assets is expected. HMck added that most of the above information is from initial conversations between JS and JC&C but that they expect this to be in line with the timetable.

JO'H suggested ongoing communication regarding the progress of JC&C's work both internally, with SG, and external parties. It was noted that this was the first time there has been a decrease in biological assets – JS observed that this is more likely to be closer to 7% as opposed to the 10% initially stated, however that it may be difficult to provide an overall picture at this time.

JO'H offered insight that releasing information regarding a biological decline may carry potential reputational risk, recommending that the ARC be further advised on how FLS plan to mitigate this. MH agreed but noted that market conditions may impact figures and that FLS would need to be clear on the 'why' of this information prior to, and when, publishing.

MP queried the requirements to complete by the agreed deadline. JS stated that they are happy with current plans and all parties are working together to deliver on time. An additional single item agenda ARC has been scheduled for 17 May 2024 to provide assurance on progress.

SH sought to confirm that the main lessons regarding planning from previous years have been implemented into the new EA – AP confirmed that these had been embedded and this should ensure a smooth audit process with timely completion for Autumn accounts. AP further noted it should be understood that a large proportion of the necessary undertaking rests with JC&C and that this constitutes a large workload. An appreciation of FLS' work in this matter was expressed.

MP requested that AP and JS flag any risks of delayed completion to board – JS stated this could be done and requirements will be met. CW queried whether there was any potential risk involved with chance of absence with individual valuers. JS offered to approach JC&C. The ARC agreed that a statement of assurance from valuer would be welcome in regard of any potential risk, mitigations of devaluation and of not achieving the ARA 2023/24 deadline.

Action:

05/2024: JS to contact John Clegg & Co. to ascertain contingency arrangements in respect of valuer absence.

Internal Audit (IA) submitted a correction to Slide 25 of JS' presentation on preparations which referred to IA as a source of assurance on the accuracy of any accounting estimates.

4. AUDIT

4a. External Audit – Annual Audit Plan 2023/2024

AP & HMck updated the ARC on the External Audit (EA) progress. The Annual Audit Plan for 2023/24 and the fee were approved.

MP thanked members for their input.

4b. Internal Audit – Progress Report

AT summarised that the work programme for 23/24 was reaching completion, providing key points from the final audit reports issued. She outlined that there were a large number of

reports finalising in the last quarter of the year. KM thanked FLS staff for the quick turnaround on these. MP thanked KM and those involved with the audit for the work completed, advising that the Business Sustainability report would be discussed as part of agenda item 6, inviting comment or questions from other members.

TO'D raised a question regarding section 2.1.6 on page five of the progress update and whether digital project delivery plans have been found to be unstable due to capacity issues, capability issues, or both within FLS. KM responded that this is a SG-wide concern, and not specific to FLS.

In respect of the Governance Audit T'OD suggested that there seemed to be no formal terms of reference for the ARC, Management Board and Strategic Advisory Board and sought to confirm that these, among others, follow a standardised structure to meet recommendations.

Additionally, JO'H expressed concern about the wider governance setup and unclear linkages between the Framework Document, Terms of References (ToRs) and the various FLS boards and committees.

With regard to timing of the work programme PW noted that pressure on resources may have had an impact and that there may be risk of exposure to resource pressure over SG as whole.

MH advised that the programme was intentionally developed in this way to accommodate a number of associated regional visits.

MP thanked PW for the clarity and production of the reports. He noted that over the past three years a high number of reports and recommendations had been produced, with associated actions for progression in FLS and sought input as to how these were being monitored to ensure they are being progressed in a timely manner; how framework documents and structures inside FLS – including board meetings and the ARC – relate to the organisation as a whole; and the responsibilities, requirements, and extent of authority of Non-Executive Advisors.

SH, whilst acknowledging that work phases and pressures towards the end of the year are a factor, suggested that there should be a focus on avoiding a release of audit reports in bulk, and that there should be an attempt to ensure an even spread over the 2024/25 year.

MP brought focus back to the volume of reports, recommendations and actions created over the past three years suggesting that there may be an opportunity to put in place an electronic tracker to support progress and reporting. KM offered to provide a details of other organisations' tracking support tools and queried which trackers that could be shared within FLS. JO sought clarification on this as a tracker was already produced for the ARC, including updating progress on outstanding actions and FLS Director summary to promote accountability/ownership .

RS clarified that the current tracker does not show timelines for delivery, instead showing information at a strategic level and as such may not include desired details. RS continued by stating that more efficient ways to communicate information could be investigated but that this would require input from the ARC with regards to what they considered useful. It was agreed that FLS would investigate options and present details at the next meeting.

Action:

06/2024: KM to provide details of audit report action trackers from other organisations for consideration by FLS.

Action:

07/2024: RS to present options on audit report action trackers for consideration at the next ARC meeting.

4c. Internal Audit – 2024/25 Audit Plan

KM presented a short overview of the proposed work programme for FY 24/25, highlighting that it has been developed based on observations and outcomes from previous audits, alongside assessment of the FLS Corporate Risk Register. The IA plan was agreed and MP thanked KM for input and noted the progress made from the previous plan.

4d. Audit Recommendations and Actions – Progress Update

RS offered a progress update, highlighting a number of recently issued reports have not been included in the presented document; and an overview of follow-up reports now complete in relation to all medium and high recommendations that have been evidenced and signed off by IA.

The ARC thanked RS for her update, and MP thanked GH for the update on Business Continuity Planning as a follow-up to the earlier discussion on cyber security.

5. BREAK

6. RISK

6a. Business Sustainability Audit Report

GP led on the agency's response to the Business Sustainability Audit Report on behalf of the FLS Directors. He highlighted that the recommendations in the report and management response on actions had a significant read across to the FLS Transformation Programme.

He continued that although a number of business reviews had been progressed through the Directors Review which commenced in the summer of 2023, it was agreed that plans could have been documented more clearly and planned milestones and benefits articulated and communicated.

It was also recognised that there was a wider requirement to catalogue and review work programmes that were already underway as part of the Transformation Programme. This would not only address recommendations on reducing silo working, but also ensuring activity was aligned to the objectives of the programme, where appropriate taken forward at the most appropriate time, or if no longer a priority resources redeployed.

JO suggested that the Transformation Programme Board had a potential oversight role for these existing work programmes to, in some instances manage, track and prioritise activities, allocation of resources and monitor achievement of planned outcomes.

MH advised that in anticipation of work moving at pace a Transformation Programme Board has been set up, with membership including TO and KM. Primary work was underway to set out a Terms of Reference and brief for the programme. A meeting was also due to be held with SH, the FLS Directors and Kevin Quinlan (FLS's newly appointed CEO) to seek further input and views to help inform development of these documents and the wider programme.

MP thanked GP and MH for input and opened floor to questions.

TO advised that she acknowledged that she understood the need to update the ARC on progress on business sustainability and the frustrations at the apparent lack of progress. However, she reaffirmed the number of challenges FLS are managing, including the transition to the new CEO taking up post. This is a significant programme, therefore getting the brief right is key to successful delivery, underpinning the opportunity to move at pace where appropriate.

JO thanked TO for her update, seeking assurance from FLS Directors that the recommendations from the audit report are embedded in to the programme appropriately and the ARC are kept appraised for progress.

MH followed up on observations made earlier by PW regarding pressures on other public bodies/SG, reflecting on FLS's tendency to be delivery focused and may not have always ensured a holistic approach. GP added that the Transformation Programme Board also provides direction and oversight in ensuring agreed workstreams and expected outcomes are monitored through to completion and delivered.

TO confirmed that the programme, and wider organisation, are still moving forward with focus on the right areas.

PW highlighted that realignment of the Corporate Risk Register and actions related to the Programme and workstream will be a helpful assessment in supporting the organisation to manage and respond to risk.

CW sought insight from FLS management on why this programme would deliver the necessary change, where previous potentially efforts had not.

GP and MH outlined that there were now a growing number of internal and external impacts affecting the business and driving the need to change. This includes financial pressures; renewed appreciation of the creation of FLS from previous org and impact of dealing with legacy policies, procedures and ways of working that need to be considered to support a modern SG agency, with a commercial undertaking.

JO queried whether there was sufficient commercial expertise and acumen to support a new operating model, with appropriate culture to deliver such a significant programme. The FLS Directors agreed that these were important elements that had already been identified for inclusion in the programme.

SH reflected that over the last four years FLS has been building financial reserves to carry the organisation through difficult times, including pressures on wider SG finances. Changes in the timber market has held well, but has been offset by increased inflation; and wider consequences of political and economic changes both in Scotland and internationally.

He continued that tensions between operating as a public body and commercial organisation had already been raised with Director General and SG to indicate that a new model is required as cannot thrive in current circumstances. There are also wider changes being considered in SG as to how publicly owned land is managed and the policies and legislation tied to this.

MP concluded that it would be beneficial if the ARC were kept updated on understanding any potential proposals to the changes on SG's approach to managing publicly owned land, alongside the wider Transformation Programme.

JO also requested that following the new CEO taking up post, it would be beneficial to see how the Transformation Programme sits within the wider Governance structure, particularly in relation to accountability.

Action:

08/2024: Secretariate to table an update on Transformation Programme for the next ARC meeting.

6b. FLS Risk Update, inc. review of risk register to support effective decision-making and outcomes

RS presented the risk update, highlighting that as part of the governance audit risk management had been considered. The report highlighted that the approach to risk management in FLS was aligned to SG and met the requirements of the Scottish Public Finance Manual, with recommendations related to improving the adoption and embedding of the policy across the organisation.

She indicated that to support opportunities to improve the process she had instigated a questionnaire for completion by ARC and Management Board members to provide insight to updating the approach and supporting materials to meet the different audiences. An update on this would be presented at the next ARC, also allowing time for any requirements of the new CEO to be identified and taken in to consideration.

The ARC thanked her for the update and agreed an update on any potential improvement, alongside the annual review of the Risk Appetite Statement would be welcomed at the next ARC meeting.

Action:

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.

7. AOB

7a. National Fraud Initiative Update

CB provided an update regarding the National Fraud Initiative. He outlined that one minor instance of potential fraud was found during checks; this was in relation to checks across eight hundred and twelve transactions of a similar nature, with thousands more transactions conducted annually.

The ARC found reassurance in the update and thanked CB for his input.

7b. Fraud Investigation Update

MH provided an update on an ongoing fraud investigation. The ARC noted the update.

8. ANNUAL CHAIR REPORT – DRAFT

MP stated that work on the annual Chair's report was underway and would be circulated to ARC members as soon as possible. It is intended that this will be used alongside with discussion as part of the induction of the new CEO.

9. CEO CLOSING REMARKS

SH updated the ARC on the recruitment for further non-executives, indicating that this supported succession planning for the next ARC Chair. A number of applications have been received, with the initial sift and interviews due to take place in the coming weeks.

As this is SH's final ARC meeting pending his retirement, MP thanked him on behalf of the wider membership for his service to FLS.

SH thanked the ARC for their contribution to FLS and support to him in his role as CEO. He acknowledged their contribution during some difficult times, including Covid, and considers that they have a vital role in ensuring the ongoing success of FLS in continuing challenging time.

10. CLOSE

An additional one agenda item meeting has been scheduled for 14th May 2024 to provide an update on preparation of the Annual Report and accounts 2023/24. The next full meeting of the ARC is Monday 10th June 2024 at 11:00am.