



## FORESTRY AND LAND SCOTLAND AUDIT AND RISK COMMITTEE

10.30, 05 July 2022, MS Teams Conference

### 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  
Stephanie Harold (SHa), Audit Scotland  
Gillian McCreadie (GM), Audit Scotland  
Alison Thomson (AT), Internal Audit, SGIAD  
Celyn Paton, Admin Officer FLS (Minutes)

**Others:** Callum Orr (CO), Portfolio, Programme and Project Assurance, SGIAD

**Apologies:** Donna Mortimer (DM), Head of Finance & Procurement FLS  
Mark Taylor (MT), Audit Scotland  
Kate Moffat (KM), Head of Internal Audit, SGIAD  
Amy Grant (AG), Internal Audit, SGIAD

### 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	Open	Simon Hodgson

	assurance levels within the organisation is effective, looking at potential to attach to current ongoing governance work with FLS Executive Team		
35/2021	Audit Scotland to facilitate introductory meeting between KPMG 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
01/2022	FLS to ensure deep dive exercises have a clear method to record good practice and lesson learned.	Open	Michael Hymers/Rhondda Salmond
02/2022	RS to consider additional question around appropriate resourcing and succession planning and communication in deep dive template.	Open	Rhondda Salmond
03/2022	SHo to identify priority risk from FLS Risk Register for deep dive analysis at next ARC.	Open	Simon Hodgson
04/2022	MH to circulate Pre-Procurement Gate Recommendations assurance report to ARC.	Open	Michael Hymers
05/2022	FLS to consider future projects for Gateway review Assurance work.	Open	Simon Hodgson/Michael Hymers/Rhondda Salmond
06/2022	Where required SHo to meet with Non-executives to discuss proposed new Governance Arrangements	Open	Simon Hodgson

### 1. Preliminaries/Introductions

MP welcomed everyone to the FLS Audit and Risk Committee (ARC) meeting and outlined the agenda.

MP advised that in order to be quorate the ARC requires 3 non-executive members. However, prior to this meeting, the ARC sought a derogation from the Minister's office which was approved, confirming the ARC as quorate for the purpose of this meeting.

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 24 March 2022, subject to the incorporation of amendments from SHa.

## **Matters Arising**

**24/2021:** RS advised that as part of the overall review of risk appetite and banding, FLS will incorporate how actions related to risk appetite are reported.

**25/2021:** RS outlined that the Risk Register has been updated to include the additional request. Work is ongoing to gather feedback as part of FLS's reporting to the ARC to ensure the Risk Register reflects relevant information with appropriate associated actions.

**26/2021:** RS noted 26/2021 status as Open – advising that work is ongoing to gather a detailed trend analysis of Risk scores for the ARC's consideration at a future meeting.

**30/2021:** Closed

**31/2021:** No additional feedback received from either Internal Audit or Audit Scotland, so proposed structured agenda at future ARC meetings accepted.

**32/2021, 33/2021:** Discussion under item 3b on the agenda.

## **3. Risk**

### **3a. New and Emerging Business and Potential Risks**

SHo provided a verbal update on new and emerging risks affecting FLS, recognising that Recruitment and Retention of staff remains an ongoing challenge across the business and acknowledging that impacts of this can be seen across the sector as a whole. FLS are focusing attention on this and good progress is being made.

With recent fluctuations in timber prices, SHo advised caution around current Business Planning and emphasised that Cost Centre managers will consider trading risks within future proposals. Business Planning is ongoing with efforts focused on Cost Centre /Regional led plans, to enable regional empowerment within the business and a strong Finance Team is in place to support Cost Centre managers throughout this process.

SHo recognised that recent investment within the Finance Team and systems has produced a more accurate Financial Year (FY) end process and expressed thanks to the Team for their efforts moving into FY 22/23.

Summarising caution around trading, SHo advised that risks and associated actions relating to trading are adequately captured on FLS's Risk Register and work to monitor any potential changes will continue.

Acknowledging recent rising Covid-19 rates across Scotland, SHo recognised this as an ongoing risk to business and outlined that FLS are following the latest Scottish Government (SG) guidance, ensuring effective precautions are in place.

SHo recognised recent procurement challenges within the business due to ongoing recruitment issues and staff absences from Covid-19 and highlighted that work is ongoing to address these issues.

SHo reflected that the FLS Risk Register appropriately captures all of the concerns identified and work will continue to assess any future change to risk, to ensure current controls and actions to mitigate against risk are still relevant.

MH advised that RS has circulated the latest external review of FLS's CyberSecurity. The report identified areas for development and improvement to current systems, processes and procedures to ensure FLS is as robust as possible to Cyber Threat. Overall, the report was positive and can provide confidence and further assurance to the ARC that FLS is taking adequate action to ensure risk from Cyber Threat is minimised.

ARC members welcomed the Cyber Security report.

### **3b. Deep Dive: Recruitment and Retention (FLS 19)**

MH and RS presented a deep dive analysis paper on FLS19, Recruitment and Retention. MH acknowledged that this is the first deep dive exercise to be presented to the ARC and welcomed any feedback from members to help establish a baseline framework and consistent approach for future deep dive exercises.

MH advised the increase in risk and outlined the key challenges associated with FLS19, highlighting that the required skilled workforce are in demand across both the public and private sectors and a higher staff turnover have significantly contributed to the current Risk Score.

FLS have focused resources on progressing actions to help mitigate against this increased risk, including recruiting two specific Talent Leads who are leading on possible solutions and potential changes to current recruitment practices, to hopefully attract more staff. Which in turn will relieve pressure on existing staff and decrease the current Risk Score.

MP sought clarity on this exact deep dive process and asked how much time and resource this exercise took.

RS advised that as this is a priority area for the Executive Team, there was already a considerable amount of information available, so estimated a couple of days engagement across the business to pull this deep dive analysis together. However, RS recognised that depending on the identified deep dive analysis subject, timeframes could vary. She noted that any risk identified to undergo a deep dive would already be scoring high on the Risk Register and therefore actions to mitigate this risk should already be ongoing, recognising that overall, deep dive analysis should not require significant resources.

MH recognised the benefit of deep dive exercises, allowing FLS the ability and resource to take a realistic view and assessment of risk, providing a detailed, critical analysis to ensure appropriate assurance is in place.

TG expressed agreement with the deep dive approach and stressed the value this analysis can have to the business.

LT agreed to the approach set out in the paper and suggested the need to recognise any areas of good practice and lessons learned when analysing a risk, ensuring there is a framework in place to recognise and record this recognition.

MP expressed appreciation for the deep dive exercise and highlighted the benefit of these exercises in providing additional assurance to the business and Accountable Officer (AO). MP suggested additional questions are added to the template for future deep dive exercises focused on ensuring appropriate resources are being used to mitigate the risk and the idea to capture succession planning in the analysis. It would also be beneficial to capture how risk management

activity and actions relating to the specific risk theme is being communicated across the organisation.

Regarding succession planning, MH highlighted that this is a key theme in the current recruitment project, including looking at ways for FLS to best utilise certain skillsets to ensure all areas of the business are supported, addressing the opportunities to ensure experience/knowledge is passed on and identifying mentoring opportunities where applicable.

SHo acknowledged industry wide efforts to address the recruitment challenges the Forestry sector is currently experiencing and outlined FLS contribution to this process.

The ARC agreed to the approach and welcomed further deep dive exercises.

#### **Actions:**

- **01/2022: FLS to ensure deep dive exercises have a clear method to record good practice and lesson learned.**
- **02/2022: RS to consider additional questions around appropriate resourcing and succession planning and communication in deep dive template.**
- **03/2022: SHo to identify priority risk from FLS Risk Register for deep dive analysis at next ARC.**

#### **3c. FLS Risk Register and update**

RS outlined that the revised FLS Risk Register had been circulated and identified that this now incorporates assessment against risk appetite and tracks progress towards target risk scores. Information from this progress tracking will enable future trend analysis for ARC consideration.

Both SHo and MH expressed the need to continue to challenge and encourage the business to revisit and assess current and potential risks to ensure risk remains a business wide priority.

The ARC thanked RS for the update and were content with progress.

### **4. Audit**

#### **4a. Internal Audit – Progress Report**

AT gave a verbal update on the Internal Audit Progress Report for FY 22/23, highlighting the following key points; The Asset Management Plan is in draft report, Financial Governance and Management fieldwork has started, Contract Management terms of reference have been issued and Health and Safety Part 2 is now complete. Due to resourcing issues within the Payroll Team, it was agreed to delay this work until Q3 to ensure appropriate capacity is in place. AT summarised that good progress is being made against the Annual Audit Plan and opened up the discussion for comment.

MP questioned if Internal Audit and FLS had discussed any changes to resources as highlighted in the report at 2.1.3 and whether this would impact on budgets.

AT clarified in relation to point 2.1.3, that FLS management were advised of this additional resource at the end of FY 21/22 and highlighted that Internal Audit meet monthly with FLS management to discuss progress and review budgets. Adjustment would be made if necessary, subject to ARC approval.

MP asked if overall progress was on track in terms of timescales and sought clarity as to whether there were any risks associated with closing planned Audits at the end of the FY.

AT advised that Internal Audit aim to evenly spread Audit workload across the FY to elevate increased pressure on FLS at any one point and stated that Internal Audit believe the current forecasting to be achievable for FY 22/23.

MP sought clarification on the amber rating against both the Newton Nursey and Management Information Projects (MIP) and whether this has an impact on the Risk Register and associated mitigation actions.

MH outlined that potential areas for concern for both projects are adequately identified on the FLS Risk Register and are being consistently monitored.

The ARC expressed thanks to Internal Audit for their report.

**Actions:**

- **04/2022: MH to circulate Pre-Procurement Gate Recommendations assurance report to ARC.**

**4b. Internal Audit – Portfolio, Programme and Project Assurance**

CO from the SG Portfolio, Programme and Project Assurance team provided an overview of their work and an update on recent reviews carried out on FLS projects. Responsible for all Gateway Review Assurance work for any bodies under the Scottish Public Finance manual, CO outlined that assurance work is aimed at adding value to a programme or project and any recommendations made are not mandatory.

The Portfolio, Programme and Project Assurance team have carried out the following reviews for FLS:

- In 2020 – Health Check for Future Structures Project
- In 2021 – Health Checks for MIP and Newton Nursey Projects
- In 2022 – Health Checks for Newton Nursey Project and Future Structures Project

SHo expressed thanks to CO and the team, recognising the process as adding good value, being extremely useful and constructive. Recommendations received quickly and efficiently allowing appropriate actions to progress where needed.

The ARC thanked CO for his update and welcomed future continued work.

**Actions:**

- **05/2022: FLS to consider future projects for Gateway Review Assurance work.**

**4c. External Audit Management**

SHa gave a verbal update on External Audit work, advising that in March, KPMG had been provisionally awarded the new contract as FLS's auditor for handover in September/October 2022. However, due to re-allocation of contracts after declaration of conflicts of interest, this contract has now been awarded to Grant Thornton. SHa assured the ARC that Audit Scotland would facilitate a handover with Grant Thornton to initiate their engagement with FLS.

With reference to the interim audit report, SHa highlighted the following key areas relating to mitigating controls to reduce fraud and error for ARC consideration; general ledger – system user access rights, general ledger – authorisation of journal entries, accounts payable – authorisation of invoices, accounts receivable – segregation of duties. SHa emphasised that all points raised in the report should be reviewed and that any planned work detailed should be introduced by management throughout FY 22/23, to strengthen FLS’s control environment.

The ARC thanked Audit Scotland for their efforts and continued work.

#### **4d. Audit Recommendations and Actions – Progress Update**

RS advised that further to the progress update paper circulated ahead of this ARC, FLS has been notified of a handover issue relating to self-billing and a revised paper to be circulated after this meeting with updated information.

FLS continues to progress audit recommendations provided by both Internal and External Audit. The paper reflects an overview of ongoing audit report statuses and highlights any areas of issue. RS acknowledged that issues hindering progress reflect the current business wide pressures associated with resourcing.

Management actions in relation Health and Safety are now complete.

The ARC noted the update provides additional assurance to the AO, identifying and providing assurance feedback in a formal context and welcomed continued efforts on this.

### **5. 2021/22 Annual Report and Accounts**

#### **5a. Preparations and update**

TG updated the ARC on the 21/22 Annual Report and Accounts, advising that they were submitted to External Audit on 9<sup>th</sup> June 2022. TG expressed thanks to JS and the finance team for their work in producing these.

The ARC thanked all those involved and recognised that the Annual Report and Accounts are due to be reviewed at the next ARC meeting scheduled for September 2022.

### **7. Any Other Business (AOB)**

#### **Governance Arrangements**

MP acknowledged recent discussions regarding proposed changes to FLS Governance Arrangements. Additional information has been circulated to the Non-Executives to provide further insight on proposals. Where necessary, further discussion will be held with the Non-Executives and CEO before presentation at the ARC.

#### **Actions:**

- ***06/2022: Where required SHo to meet with Non-executives to discuss proposed new Governance Arrangements.***

#### **Firearms**

MP raised a concern in relation to a HSE’s report dated 6<sup>th</sup> May 2022, on the use of lead in firearm ammunition, highlighting the impact this may have for FLS.

MH clarified that FLS already stipulate the use of lead-free ammunition on Scotland’s National Forest and Land and highlighted that this includes all FLS staff and contractors. There is also a

time line in place by which FLS expect any recreational stalkers to move to using only lead-free ammunition.

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

**Date of next meeting confirmed as Wednesday 28<sup>th</sup> September at 09.30.**