



FORESTRY AND LAND SCOTLAND AUDIT AND RISK COMMITTEE

14:00, 23 November 2021, MS Teams Conference

Present

Members: Mark Pountain (MP), Chair, Non-Exec
Lisa Tennant (LT), Non-Exec
Pamela Zielinski (PZ), Non-Exec

Attendees: Simon Hodgson (SH), Chief Executive FLS
Graeme Hutton (GH), Director Business Services FLS
Michael Hymers (MH), Head of Corporate Support FLS
Donna Mortimer (DM), Head of Finance & Procurement FLS
Rhonda Salmond (RS), Change Manager FLS
Mary Fitzgerald (MF), Deputy Head of Finance & Procurement FLS
Louise Allen (LA), Financial Accountant FLS
Colin MacCullum (CM), Senior Finance Manager FLS
Jason Liggins (JL), Head of Health, Safety and Wellbeing FLS
Mark Taylor (MT), Audit Director Audit Scotland
Stephanie Harold (SHa), Senior Manager Audit Scotland
Emma Keggans (EK), Audit Scotland
Kate Moffat (KM), Head of Internal Audit, SG IAD
Alison Thomson (AT), Internal Audit Manager SG IAD
Amy Grant (AG), Internal Auditor SG IAD
Garry McCallum (GM), Internal Auditor SG IAD (Observer)
Simon Phillips (SP), Business Services Liaison Manager FLS (Minutes)

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 |
| 3/2020 | Information Assurance training and development to be provided to Non-Execs | Open | Graeme Hutton |
| 1/2021 | Review response to risk FLS7 on Climate change | Open | Michael Hymers |
| 2/2021 | Provide detailed update on Risks; FLS5 and FLS17 (early 2022) | Open | Michael Hymers |
| 7/2021 | JL to update ARC on Health and Safety Responses to Internal Audit Report | Open | Graeme Hutton |

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| 12/2021 | Carry out a review of 21/22 Response to New Risks and Lessons Learned | Open | Michael Hymers |
| 13/2021 | LT to share example organisational capacity model to FLS | Open | Lisa Tennant |
| 14/2021 | Develop organisational capacity decision making tool | Open | Michael Hymers |
| 15/2021 | Provide ARC an update on Disaster Recovery Testing | Open | Graeme Hutton |
| 16/2021 | GH will contact non-execs to agree date in diaries for local assurance training to be undertaken. | Open | Graeme Hutton |
| 17/2021 | MT and colleagues will review other methods of delivering the in-house assurance training for external people. | Open | Mark Taylor |
| 18/2021 | MH to add delivery dates to outstanding actions on the action tracker | Open | Michael Hymers |
| 19/2021 | GH to look at reporting requirements to ensure CEO is receiving necessary assurance information. | Open | Graeme Hutton |
| 20/2021 | GH to aggregate cyber security recommendations and bring to ARC as part of follow up process | Open | Graeme Hutton |
| 21/2021 | MH to speak with LT to provide an organisational capacity model that the ET may wish to consider. | Open | Michael Hymers |
| 22/2021 | MH to discuss method for progressing action tracker format with SH/RS to include high, medium and low priorities as well as dates for actions to be delivered. | Open | Michael Hymers |
| 23/2021 | RS to review the width of the risk appetite bands | Open | Rhondda Salmond |
| 24/2021 | SH to consider how to meaningfully report activities in areas such as innovation to show our risk appetite. | Open | Simon Hodgson |
| 25/2021 | RS to look at options to incorporate risk appetite into target risks | 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 |
| 27/2021 | MH to discuss options with RS for ARC undertaking deep dives into top risks taking into account the gaps between target / actual and actions needed and bring proposal to a future ARC meeting | Open | Michael Hymers |
| 28/2021 | DM to consider change to the modern slavery policy to reflect the risks associated with such a significant construction project. | Open | Mary Fitzgerald |
| 29/2021 | SH and team to look at possible dates in Q4 for an additional ARC meeting. | Open | Simon Hodgson |

1. PRELIMINARIES/INTRODUCTIONS

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

There were no declarations of conflict of interests.

2. MINUTES OF LAST MEETING AND ACTION POINTS

MP thanked those involved for the minutes of the last meeting. The ARC members agreed that the minutes were a fair and accurate record of the meeting held on 27 September 2021.

MP raised the issue of outstanding assurance training for staff and non-execs. MP set challenge for dates to be put in place to deal with outstanding points. LT agreed and would like to see these updated as they form part of the assurance process. GH provided an update on the matter of the outstanding assurance training. GH advised that he had spoken with the Public Bodies unit within Scottish Government but they confirmed that the technical training was not accessible for external users i.e. ARC members. GH confirmed that FLS is looking at providing a local solution covering data protection and information management as an alternative. LT suggested speaking with the Information Commissioner's Office as they has provided training in the past.

MP asked if there are other public bodies with external non-execs who also have this issue and if so, is there a process for providing this training? MT stated that he is not aware of alternative solutions but would look at his with colleagues. In the meantime, MT confirmed that he was supportive of providing a local solution in the meantime.

PZ spoke about the need to add dates to agreed actions in order to help ARC to review progress. SH agreed that this would be a useful addition to the action tracker.

Actions:

- **16/2021 GH will contact non-execs to agree date in diaries for local assurance training to be undertaken.**
- **17/2021 MT and colleagues will review other methods of delivering the in-house assurance training for external people.**
- **18/2021 MH to add delivery dates to outstanding actions on the action tracker**

MATTERS ARISING

17/2020: GH confirmed that FLS is at 96% compliance for mandatory training on data protection. In addition, awareness sessions on information security are being undertaken with regional management and planning to do the same with national teams. MP noted the improvement and asked if action should be closed. GH reiterated would not be complacent and continue to seek to improve the compliance percentage. PZ agreed we should close off 17/2020 but suggested MP review on a regular basis to ensure not the same people outstanding – keep focus on for the next 12 months.

MP suggested we revisit the standard reporting requirements that are given to CEO. Asked GH to look at this. MH emphasized that IA have indicated that they are content with information received by SH. MH would like to ensure that we are not increasing processes unnecessarily.

03/2021: KM suggested having actions on recommendation tracker as opposed to the action tracker. MP felt it was on action tracker as there was a gap in both policy and process particularly for starters and leavers. GH confirmed that interim arrangements regarding starters and leavers have been put in place while a more permanent solution is identified. With this further assurance in place, ARC confirmed that they are content to close the action.

07/2021: To be discussed later (see item 4)

15/2021: GH reported a positive response from the recent cyber security audit which has been reviewed by IA. GH confirmed that a follow up work is to be undertaken by IA and then a further update would come to ARC.

01/2021: MH stated that this action point, along with actions **02/2021** and **12/2021** all relate to current risks. MH confirmed that he plans to provide a further update at the March ARC meeting.

13/2021: Action remains open. MH to speak with LT to identify an organisational capacity model that the ET may wish to consider.

14/2021: Action remains open while the current corporate structures review takes place. MH confirmed that he plans to take this forward now that trade unions have received an update.

MH asked if the Exec Team are finding the tracker useful. SH recognized the need to structure the various areas of assurance into a single place to help ARC review all aspects together. MH highlighted the other ways assurance is received by the CEO i.e. Assurance checklist so would be keen to ensure we are not duplicating assurance by bringing it through ARC.

PZ stated that it would be useful if the tracker have priorities marked as high, medium and low along with due dates to ensure that focus can be given to the most significant matters. KM suggested that FLS consider using a RAG (red, amber, green) status to prioritise.

RS suggested that FLS could bring an audit progress report as opposed to an action tracker report to future meetings. AT agreed to provide copies of other trackers that work in other organisations for FLS to consider.

SH Agreed that adding dates to actions would be helpful and the need to revise the tracker system to allow ARC to see clear actions and progress.

Action: Include dates on future actions

Actions:

- **19/2021 GH to look at reporting requirements to ensure CEO is receiving necessary assurance information.**
- **20/2021 GH to aggregate cyber security recommendations and bring to ARC as part of follow up process**
- **21/2021 MH to speak with LT to provide an organisational capacity model that the ET may wish to consider.**
- **22/2021 MH to discuss method for progressing action tracker format with SH/RS to include high, medium and low priorities as well as dates for actions to be delivered.**

3. RISKS

3a. New/Emerging Business and Potential risks

SH provided a verbal update on new and emerging risks affecting FLS. SH stated that there were no wholly new risks to report but other risks are evolving.

SH emphasized that health and safety remains a significant risk and a key area of focus. SH remains conscious of the strain on the business brought about by two main factors, Covid-19 and

the ongoing recruitment pressures. This has affected the degree of focus on health and safety processes. SH confirmed that there were still significant recruitment gaps in some regions and acknowledged this could impact on staff exposure to health and safety risks in some areas. SH assured ARC that health and safety remains a top priority for FLS and we will continue to contribute to wider sector. Our aim is to be top of the standard but given the nature of our work, we will never eliminate risks entirely

SH spoke about financial Sustainability and confirmed that we continue to work on the five year business planning process/ SH is comfortable with the progress made to date and expects the plan will be ready for viewing by the strategic board and ARC by the end of the year.

SH advised that the internal change processes continue to be a challenge as they inter-connect with other programmes. The planning process will help FLS to agree on areas of work to ensure resources are able to meet change programmes.

SH highlighted that Covid-19 has shown that business continuity processes have indicated a high level of resilience in order to keep delivering against targets but recognized that the pandemic is not the only risk to continuity.

SH made ARC aware that the contractor Base are under pressure with wages, driver shortages and the supply of spare parts from Europe. Indications show that costs are increasing by approximately 15% due to these issues. FLS believes that it can absorb these increases but a change after a period of low inflation and flat prices. SH confirmed that this will mean FLS will have to increase timber prices. MP asked if we can enter into long-term contract arrangements with suppliers to mitigate price rises. SH confirmed that we do have some operations with longer term contracts but that the speed of change means we are having to renegotiate within the period of the contract which is an added complication. DM added that while there are long term relationships with many suppliers, FLS is competing with the private sector for these suppliers. In addition, FLS must continue to act with due diligence regarding the use of public money

With regards to climate change, SH stated that as things are accelerating, previous dates may need to be brought forward. SH advised that FLS will need to review all aspects of our current operating models and species mixes if temperature rise goes above 1.5 degrees.

3b. FLS Risk Register and Update

RS gave a verbal update on the corporate risk register.

MP acknowledged the work undertaken to deliver the work relating to risk appetite. ARC noted that FLS' overall risk appetite was "cautious" and wondered if this should be broken down further. RS confirmed that while cautious is the overall rating, there are more detailed appetite levels for specific areas. For example, FLS has a far greater appetite for risks associated with innovation. RS also advised that the risk Appetite is due to be reviewed by ET in the coming months and will present revised risk statement to ARC thereafter.

LT noted that the current bandings are very wide and asked how FLS will measure our actions against the risk appetite in practice e.g. Innovation? PZ wondered if there are any learnings from other public bodies. SH agreed to consider this. MT advised that some other bodies have used the risk matrix grid to try to translate risk appetite.

PZ asked if the corporate risk register and dashboard could be reviewed to show if trends to see if risk levels are getting closer or further away from the stated target. RS agreed to look at this option.

MP asked if a deep dive into key risks by ARC would be helpful. SH stated that he believed it would be useful to get an external perspective on the key risks and actions. MH agreed to look at options to facilitate this process.

Actions:

- **23/2021 RS to review the width of the risk appetite bands**
- **24/2021 SH to consider how to meaningfully report activities in areas such as innovation to show our risk appetite.**
- **25/2021 RS to look at options to incorporate risk appetite into target risks**
- **26/2021 RS to look at how future changes to risk scores can be noted to show trends towards / away from target risk scores**
- **27/2021 MH to discuss options with RS for ARC undertaking deep dives into top risks taking into account the gaps between target / actual and actions needed and bring proposal to a future ARC meeting**

4. Health & Safety Audit - Progress Update

JL confirmed that all actions from the 19/20 IA review are now completed. JL updated on progress against the review undertaken by IA in 20/21:

- Operational Guidance recommendation has now been completed pending IA review.
- Formalising of mandatory training is being taking forward by the Head of Learning and Development. Work is underway with timescales extended.
- Monitoring of Management Information is a longer term piece of work due for completion in 2022. Consultation and scoping work has taken place and assurance audits have taken place.
- Identification of roles and responsibilities is part of ISO450001 accreditation. A mapping exercise is underway and meetings with National and Regional teams are ongoing. Work is continuing on this.
- Hand Arm Vibration Syndrome work is well underway and regional actions plans have been developed. Reports on the implementation of actions are now due. Once received, the Director of Land Management and the Health, Safety and Wellbeing team will review

JL confirmed that all recommendations are completed or on track. JL advised that roles and responsibilities were not clear in some areas of the business and the Exec Team will need to provide this clarity.

PZ asked about an implementation date for ISO450001 accreditation. JL stated that this would likely be around 2025.

GH reiterated that Accountable Managers must deliver the safety work while calling on the Health Safety and Wellbeing team for expert advice.

MP, on behalf of ARC, thanked JL for his update.

5. FLS Annual Report & Accounts FY 20/21 Overview

MF provided a verbal update from the paper provided. MF confirmed that the annual report will follow a similar format to last years. MF went on to confirm that the team had focused on compliance as opposed to development of systems and processes due to CV19 over the past year but confirmed that they intend to produce a programme of work in coming months to develop systems and processes.

MF stated that the audit process was extremely positive and thanked Audit Scotland for their support and feedback.

MP thanked MF for her update and noted that it had been helpful to keep the format the same as it allowed for easy comparison. MP noted good progress in areas and some significant achievements in harvesting, new tree planting and RIDDOR given the CV19 restrictions.

6. Audit

It was agreed by the Chair during the meeting that there would be a reordering of items in the section of the meeting to allow fluidity across the discussion on the Annual Report and Accounts, bringing forward the Audit Scotland papers in the sequencing.

6b. Audit Scotland – FLS Accounts FY 20/21 Cover Letter

MP asked Audit Scotland if they are satisfied with the approach taken MT was content to confirm this. MT then provided a verbal update on papers issued

MT confirmed their work is now completed subject to any issues arising from this meeting. We will also seek provision of the Letter of Representation. Audit Scotland confirmed they are issuing an unqualified and unmodified opinion. MT also advised that Audit Scotland provide a positive opinion on going concern which is now required due to a change in auditing standards. .

MT raised the following points for consideration by ARC:

i) A misstatement for £824k in Windfarm Income was reported. FLS decided not to adjust their accounts and Audit Scotland were content that this is not a material amount.

ii) In presenting this report to the Audit and Risk Committee, Audit Scotland seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

iii) In addition to the misstated windfarm income mentioned above, Appendix B of the covering letter (Letter of Representation) provided indicates a second non-standard item, the valuation of biological assets.

MT highlighted that the valuations included are significant estimates and that it is important that SH confirms that FLS is content with these estimates.

MT also asked FLS to consider reviewing their method for accruing of windfarm income as in 2019/20 the income was under-accrued by £3m. DM agreed that a review of the methodology is planned.

6c. Audit Scotland – FY20/21: Annual Audit Draft Report

MT spoke about the key messages included in the report, namely financial sustainability, financial management, governance and value for money. He confirmed that Audit Scotland were content with these aspects as well as the management of COVID-19. MT noted the progress being made to develop a long term financial strategy and reporting process. MT recommends that FLS look to develop more KPIs and performance measures to be able to evidence progress against strategic aims.

ARC stated their appreciation for the work undertaken by Audit Scotland and also noted the recommendations given to reinforce its commitment to long term financial planning and to bringing in metrics to the annual reporting to accompany the narrative.

The Audit and Risk Committee:

- **Noted the misstatement of Windfarm income but confirmed that the value was not material and therefore no adjustment to the accounts was necessary.**
- **Confirmed that there are no instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to the attention of Audit Scotland**
- **Confirmed that the letter of representation is noted by members**
- **Recommended that the Chief Executive sign the annual accounts and report.**

6a. Internal Audit – Progress Report FY 21/22

KM gave verbal update and confirmed that the overall score is reasonable. KM confirmed that they are about to start the planning process for 22-23 and asked ARC to contact MH, SH or RS to advise of any particular subject areas you may wish them to consider

AT then provided an update on planning and fees for following year, confirming no increase in fees.

PZ noted that the Newton Nursery project had been rated as amber and asked if any more detail on this was available. AT confirmed that an amber rating reflects that while the project is feasible, there are management actions that need review. DM was able to provide an update and stated that the project was at an early stage. SH added that there are some risks associated with a large project of this type and advised that the project management resource now in place had increased confidence in FLS' ability to deliver. SH stated that he was confident the project will be delivered but was mindful of the limited experience within team. SH confirmed that a Management action undertaken had been to increase resource and capacity to help progress this work and that FLS had also brought in Scottish Futures Trust as an external board member as they have significant experience in major construction projects.

PZ asked about the risk of modern slavery in construction projects and suggested that FLS update its modern slavery statement to reflect the risks of this project. DM agreed to look at this.

PZ asked for an update on progress regarding the Firearms Policy. KM confirmed the Management returns have been received and work should be finalized in the next day.

Action:

28/2021 DM to consider change to the modern slavery policy to reflect the risks associated with such a significant construction project.

7. Any Other Business (AOB)

SH proposed that ARC should consider adding another meeting to the annual programme. This would add value and allow activities such as the deep dive review of significant risks to be undertaken. ARC members agreed to this proposal and SH agreed to review options for an additional meeting.

Action:

- ***29/2021 SH and team to look at possible dates in Q4 for an additional ARC meeting.***

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

Date of next meeting confirmed as Thursday 24th March at 13:00.