



## FORESTRY AND LAND SCOTLAND AUDIT AND RISK COMMITTEE

13:00, 24 March 2022, MS Teams Conference

### Present

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

**Attendees :** Simon Hodgson (SHo), Chief Executive FLS  
Michael Hymers (MH), Director of Corporate Services FLS  
Mary Fitzgerald, Deputy Head of Finance FLS  
Rhondda Salmond (RS), Change Manager FLS  
Mark Taylor (MT), Audit Scotland  
Stephanie Harold (SHa), Audit Scotland  
Emma Keggans (EK), Audit Scotland  
Kate Moffat (KM), Head of Internal Audit, SGIAD  
Amy Grant (AG), Internal Audit, SGIAD  
Alison Thomson (AT), Internal Audit, SGIAD  
Celyn Paton, Admin Officer FLS (Minutes)

**Apologies:** Donna Mortimer (DM), Head of Finance & Procurement FLS

### 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
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
30/2021	RS and MH to assess action points on risk and condense where appropriate	Open	Rhondda Salmond
31/2021	Internal Audit and Audit Scotland to provide and further feedback to MH and RS on proposed structured agenda for future ARC meetings	Open	Kate Moffat/Mark Taylor
32/2021	SHo to decide a priority risk from the FLS Risk Register for deep dive analysis	Open	Simon Hodgson
33/2021	Clear outcome intention of any deep dive analysis exercises to be stated before the exercise is undertaken	Open	Simon Hodgson
34/2021	SHo 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 Executive Team	Open	Simon Hodgson
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

### 1. Preliminaries/Introductions

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

There were no declarations of conflict of interests.

MP noted that this would be PZ last meeting. The ARC thanked PZ for all her contributions to date.

### 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 November 2021.

MP thanked MH and RS for producing a new format to track agreed action points with added timescales, to assist the ARC when reviewing progress. LT and PZ agreed.

## **Matters Arising**

**3/2020/16/2021 and 13/2021/21/2021:** MP highlighted duplicate action points and suggested simplifying the action point tracker, by capturing action points by subject rather than meeting date.

**1/2021:** MP requested clarity on closed status. MH provided update in item 4b.

**24/2021, 25/2021, 26/2021:** RS to condense actions and encompass under one action point. The ARC agreed they were content with this.

### **Actions:**

- ***RS and MH to assess action points on risk and condense were appropriate.***

### **3. Audit and Risk Committee – Annual Chair Report**

MP presented an update on the first Annual Chair Report by FLS's ARC and outlined the intention for the next report to be produced in time for consideration at the ARC in November 2022. The overall objective of the report is to produce an annual audit trail summarising the ongoing activity and performance by FLS's ARC.

MP highlighted 3 recommendations made within the report: the next report to be produced in line with normal annual reporting cycles; ARC members to agree the report reflects a fair summary of ARC activity and performance; and Chief Executive to consider the addition of a fourth ARC non-executive with relevant financial experience.

ARC members agreed the report was a fair reflection of ARC activity and performance.

SHo agreed to consider the addition of a fourth non-executive of the ARC subject to recruitment capacities and advised that recruitment for PZ replacement as a non-executive director was currently in early stages. He agreed that recruitment should focus on candidates with relevant governance, financial and business experience to aid the ARC's objectives.

SHo highlighted the newly assigned FLS directorates, as phase one of the Corporate Functions Review and advised that appointed FLS Directors are currently reviewing changes to responsibilities and impacts on affected teams and individuals.

MP presented an overview of a proposed agenda structure and approach to ARC meetings for FY 22/23, highlighting the need to establish a core programme of key items around assurance and risk that should be assessed at specific points throughout the year. Proposing that an agreed structure would maximise ARC input and enhance the quality of debate around governance, assurance and risk, ensuring ARC's terms of reference are met.

MP confirmed the ARC is scheduled to meet four times throughout FY 22/23 and outlined a proposed standardised agenda template for future ARC meetings, reflecting that a template should not be binding and should promote debate and objectivity. Summarising, MP highlighted proposed 'Deep Dive Analysis' of key topics following an agreed annual programme of activity for the ARC, whereby emerging themes/topics can be prioritised and the ARC to provide appropriate governance, assurance and risk mitigation analysis.

MP proposed that FLS 5 and FLS 17 on the Risk Register undergo deep dive analysis at the next ARC meeting on 5 July 2022 and asked the committee for feedback on the Annual Chair Report.

SHo approved the approach to a structured meeting agenda and confirmed the need for deep dive analysis on emerging key areas on the risk register.

MH suggested deep dive analysis on just one risk at next ARC meeting, to ensure a focused and productive discussion.

KM asked for clarity on the proposed structure agenda item 'Audit – progress update on audit recommendations and actions', highlighting how Internal Audit would normal summarise this information for the ARC and asking if any additional information would be expected.

MP confirmed that no additional information would be required from Internal Audit but that he hoped outlining the expectations for the ARC in a more formalised structure, would help provide a greater degree of transparency. RS noted that this item relates to the organisation's progress against audit recommendations and related actions, as opposed to Internal Audit providing any additional updates.

MT agreed to the overall agenda structure and raised the point that a general expectation for the annual plan to be presented at the December or March meetings is sensible, but would depend on where the Audit process is at that point in the year. MT also highlighted the need to potentially schedule meetings around the publication of the annual reports and accounts.

MF confirmed that delivery of the draft audit plan is scheduled for sign off in September 2022.

PZ sought clarification on the definition of deep dive analysis and asked the ARC to be clear on the expected outcomes from deep dive exercises.

MP suggested two potential approaches to outcomes of deep dive analysis – either one specifically related to risk, with the aim to understand if a risk is defined correctly, understand and test the mitigation actions in place and assess how the organisation is performing against the actions; Or to assess the ARC's role in supporting the Accountable Officer (AO) in regards to governance, assurance and risk and to identify and assess a specific risk to develop a clear understanding and provide assurance that appropriate actions are in place.

Overall the outcome of any deep dive analysis is to provide greater confidence that risk is being defined and addressed.

ARC members confirmed the proposed future agenda structure.

**Actions:**

- **31/2021: Internal Audit and Audit Scotland to provide and further feedback to MH and RS on proposed structured agenda for future ARC meetings.**
- **32/2021: SHo to decide a priority risk from the FLS Risk Register for deep dive analysis.**
- **33/2021: Clear outcome intention of any deep dive analysis exercises to be stated before the exercise is undertaken.**

## **4. Risk**

### **4a. New and Emerging Business and Potential Risks**

SHo provided a verbal update on new and emerging risks affecting FLS, initially commenting on the evolving volatile situation in Eastern Europe, highlighting the potential disruption this may have on timber prices across Europe and the subsequent possible impacts on the organisation.

SHo outlined rising inflation rates will have a significant impact on the organisation including areas such as operations, with potential unplanned delays on supplies to both the business and its contractors, along with increased staffing costs. Simon advised that suitable financial reserves have been secured to help mitigate any unexpected or rising costs.

SHo confirmed that there were still significant skills shortages and recruitment challenges across the organisation, highlighting potential impacts on the organisational capacity to deliver operational programmes. SHo assured the ARC that health and safety remains a top priority for FLS and an assessment of operational activities is currently underway by management to mitigate against any potential health and safety risks.

PZ sought clarity on exact areas of skills shortages FLS is experiencing. SHo advised shortages are primarily around Forester and Forestry Management roles and indicated that this is common across the sector as a whole.

MP suggested possible in-depth analysis or contingency /precautionary planning around rising inflation rates and risks to the organisation.

MH advised that significant work to model possible financial implications of rising fuel costs is in progress. FLS is working with suppliers to put in place specific fuel escalation clauses where necessary.

SHo advised that the FLS Risk Register is currently under review by management to reflect recent changes to risk and assess if current controls and actions to mitigate risks are still relevant.

### **4b. FLS Risk Register and update**

MH provided a verbal update on the corporate risk register. Clarifying MP's earlier query regarding the status of action point 1/2021, MH confirmed that FLS have reviewed risk FLS7 on Climate Change and confirmed action point status as closed. MH advised that with the new Directorate structure, it is likely this Risk Owner will move to Graeme Hutton, Director of NetZero.

## **5. Audit**

### **5a. Internal Audit – Progress Report**

KM updated the ARC on the Internal Audit Progress Report, highlighting that all assurance work is now complete and opened up the discussion for questions.

MP highlighted the limited assurance category rating on FLS Firearms Policy and Practice and FLS Self-Billing Practice and asked at what stage and how do we ensure that agreed actions are addressed.

MF clarified work on FLS Self-Billing Audit and findings, commenting that the outcomes were to be expected. She advised that dedicated staffing is now in place to focus on recommendations

made by audit and a draft action plan is in progress. Keen to highlight that given the limited assurance rating, FLS are reacting quickly to recommendations.

SHo advised of actions in response to recommendations from Firearms Policy and Practice Audit, highlighting that this was an area of expected concern and welcomed the audit recommendations. FLS Director of Land Management and Regions is actively engaging on all recommendations made by Internal Audit to provide further assurance against potential risks.

MH highlighted that prior to Internal Audit, both FLS Fire Arm Policy and Self-Billing Practice processes and procedures were legacy carry overs from Forestry Commission. As FLS is now a SG agency, the related processes and procedures need to be transferred, reviewed and embedded into the new organisation. Internal Audit has highlighted the need to adapt legacy procedures and processes and MH welcomed continued work on this.

The ARC expressed thanks to the Internal Audit team for their efforts and positive approach to working with FLS.

#### **5b. Internal Audit – 2022/23 Audit Plan**

KM updated the ARC on the 22/23 Audit Plan, thanking FLS management for their collaborative work with Internal Audit and advising that proposals of areas to focus on have been agreed by management. During the planning process, RS suggested combining areas such as Contract Management and Health and Safety under one audit, presenting a good opportunity for the Internal Audit Team to get out on site and see FLS activities first hand.

LT expressed thanks and acknowledged the work of the Internal Audit Team and management on this plan.

ARC members agreed and approved the 22/23 Internal Audit Plan.

Referencing the presentation provided by KM from a recent SG Accountable Officer Event, MP highlighted a useful framework for accountability and assurance within SG, and asked if FLS is confident they have the correct lines of assurance in place.

#### **Actions:**

- ***34/2021: SHo 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 Executive Team***

#### **5c. External Audit Management**

MT provided a verbal update on the recent External Audit procurement progress and advised this will be the last year the current Audit Scotland Team will work with FLS, confirming that the provisional contract was awarded to KPMG, who will work with FLS from the start of the next audit period. MT highlighted the importance of a rotational audit process to ensure an independent view and indicated that a handover is due to take place September/October 2022.

The ARC thanked Audit Scotland for their support and work with FLS over the past 3 years.

EK provided a verbal update on the annual audit 21/22 draft plan issued, pulling out the following key points: to issue plan in its final format and publish on Audit Scotland's website

following agreement by ARC; Exhibit 1 sets out the quantitative materiality levels to help assess impact of any errors or adjustments and whether any further audit work needs to be carried out as a result; Exhibit 2 highlights the significant financial statement risks identified and the planned work carried out to address these; Exhibit 4 highlights the wider dimension risks identified in regard to financial sustainability; Exhibit's 5 and 6 set out the planned timetable for the financial audit process and target dates for outputs. Dates to be reviewed as the accounts and audit process progresses throughout the year.

ARC stated their appreciation for the work undertaken by Audit Scotland and agreed the annual audit plan for 21/22.

Due to unforeseen circumstances, LT gave her apologies and left the meeting.

#### **Actions:**

- ***35/2021: Audit Scotland to facilitate introductory meeting between KPMG and FLS management prior to new audit process commencing.***

#### **5d. Audit Recommendations and Actions – Progress Update**

In response to ARC feedback RS presented a new approach to reporting on progress of actions from internal and external audit recommendations. This included oversight and assurance from the appropriate FLS Director that actions were being prioritised and addressed in a timely manner

RS highlighted that certain actions relating to carry over from last year's Audit Scotland's report were missed and will ensure these are amended for future updates.

ARC agreed the revised approach.

#### **6. 2021/22 Annual Report and Accounts**

##### **6a. Preparations and update**

MF updated the ARC on the report issued, highlighting the following key points: a recent successful recruitment campaign has ensured adequate resources within the management accounts team enabling increased service to the organisation; continuing to prioritise policy reviews in relation to risk; no change to existing accountancy policies for 21/22 but work currently underway on changes to 'IFRS 16 Leases' for 22/23; work has now been completed on a renewed Counter Fraud, Bribery and Corruption Policy along with a new Fraud Response Plan; FLS has undertaken the National Fraud Initiative and high level assurance provided that no fraud identified; and finally MF highlighted a move to adjusting budgets in year to support successful operation and decision making of the organisation.

MF recognised areas of weakness in the organisations processes and procedures and provided assurance that appropriate safeguards were in place. Work scheduled to further address and deliver all recommendations in full.

SHo highlighted FLS's current shared finance, HR and digital services with Scottish Forestry (SF) and noted that negotiations were in progress to separate out these service models from a future date yet to be agreed.

MP and SHo noted their thanks to those involved for a good piece of work to date and that working relationships were evidently working well.

**Action:**

- **36/2021: SHo to update ARC on SF service model separation at future ARC meeting.**

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

MP thanked FLS for additional updates on ongoing assurance work across the organisation.

MH expressed thanks for PZ contribution and wished her success with future endeavours.

No other AOB.

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

**Date of next meeting confirmed as Tuesday 5<sup>th</sup> July at 10.30.**