**SCOTTISH FORESTRY**

**AUDIT & ASSURANCE COMMITTEE MEETING**

**11 October 2022 – Teams Meeting**

**Present**

**Members** Phil Taylor (PT), Non-Executive

Eleanor Ryan (ER), Non-Executive

James Stuart (JS), Non-Executive

 Richard Morris (RM), Non-Executive

**Attendees** David Signorini (DS), Chief Executive Officer

 Brendan Callaghan (BC), Head of Operational Delivery

 Gary Henderson (GH), Senior Finance Manager

 Mark Taylor (MT), Audit Scotland

 Stephanie Harold (SH), Audit Scotland

 Alison Thomson (AT), Internal Audit, Scottish Government

 Amy Grant (AG), Internal Audit, Scottish Government

**Apologies** Ross MacHardie (RM), Head of Finance & Business Support

Gillian McCreadie (GM), Audit Scotland

 Kate Moffatt (KM), Internal Audit, Scottish Government

Action Point Summary

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| Action Point Ref | Description | Status | Completion date | Owner |
| 30/20 | That DS and RM discuss themes/topics for future AAC’s as a starting point for a possible phasing of key topic conversations with the non-executives. | Open |  | Non-Execs |
| Audit Tracker | Finance teams to update the tracker and recirculate to Non-Execs after the meeting | Open |  | Finance |
| 05/22 | GH and RM to review and enhance cash drawdown processes and procedures for 2022-23, and report back to the December meeting of the AAC.  | Open |  | GH & RM |
| 04/22 | MT and Audit Scotland to lead on handover to Grant Thornton, but to keep DS and RM informed, with a view to building good initial relationships with the new senior team.  | Open |  | Audit Scotland |
| 06/22a | A needs analysis to be done by the chair, PT and DS to discuss | Open |  | PT & DS |
| 06/22b | Assessing performance and attendance of Non-Executives | Open |  | PT & DS |
| 06/22c | Draft governance statement should be brought to the Committee at the meeting before the accounts are signed | Open |  | DS, RM & GH |
| 06/22d | paper to be written for the next meeting on how the statement is pulled together | Open |  | RM & GH |
| 06/22e | Agenda programme to be developed with Fraud as a periodic interval | Open |  | RM |
| 06/22f | Standing annual agenda item to be documented | Open |  | RM |
| 06/22g | Modify self-assessment  | Open |  | PT, RM & GH |
| Oct AOB | Send out proposed dates for AAC | Open |  | GH |

**1. Preliminaries/Introductions/Conflicts of interest**

PT welcomed everyone to the Audit and Assurance Committee (AAC), he introduced the new Non-Executive member RM and asked if there were any conflicts of interest. There were none.

**2. Minutes / Matters Arising**

The minutes were accepted as a true recording of the meeting.

**Audit Recommendations Tracker update**

DS stated that we have to start addressing the backlog of recommendations, especially those with high and medium priority. ER stated that it appears not to be fully up to date as certain dates are in the past, and that this had been raised at the previous meeting also and was becoming a significant concern. In discussion DS agreed that a stocktake and clear action plan needs to be developed to get back on track. Although the results of both internal and external audit reviews are generally positive, the increasing number of open recommendations could give external observers cause for concern, and could lead to greater levels of scrutiny.

AT said that line 17 onwards have yet to be followed up and that the follow up audits were passed to GH just before the meeting.

***Action Point:*** *Finance teams to update the tracker and recirculate to Non-Executives after the meeting.*

**3. Loss & Special Payments Report (01/22)**

GH introduced the paper, noting that the overall value of the losses was relatively small. ER asked if the organisation had learnt from these especially the ex-gratia payment. BC explained the back ground to the ex-gratia payment and that there had only been a couple of mistakes of this nature in the last ten years. He also talked about the improvements to grant processes and systems that are addressing identified weaknesses and targeted at reducing error and fraud risk. ER thanked him and asked in the future if this sort of context could be included in the paper.

On the other main source of losses, which are related to staff travel, guidance and reminders to staff to check the condition of hire cars on arrival has been issued.

**4. Internal Audit - Assurance Report – 2021-22 (02/22)**

AT spoke about the paper, stating that the overall assurance level was reasonable, and that their judgement was based on several factors and not just the audits carried out during the year. With regard to the advisory review on shared services, DS stated that a new three year service level agreement with FLS has been agreed. This new SLA has clarified many aspects of service provision, and now includes both expected service standards and KPIs.

In discussion, non-executives sought assurance on two key issues. The first of these was the delivery risk to the Net Zero-driven woodland creation targets. PT was keen to understand what the AAC could do to define and manage the risk around delivering ever-increasing ambition. DS noted that recent investment in staffing, and in improvement would lead to increased capacity, and JS highlighted the importance of working with private landowners and partners to increase the number of proposed projects.

Secondly, ER expressed concern about the large drawdown of funding from SG, and sought assurances around SFs processes both for forecasting likely expenditure, and for relating these forecasts to cash management. This has been identified as an area for improvement in previous audit reviews, and will be addressed through the work identified above around the Action Tracker.

**5. Internal Audit Progress Paper (03/22)**

AT introduced the paper stating that the paper included strategic matters which related to SG core areas more than it did to Scottish Forestry, but they would be useful to note. In addition, AT said that there was a slight increase in the fee that would be charged for 2023-24, and that several reports are now in draft and should be finalised soon,

ER asked if the remainder of the work would be completed by the end of the financial year, AT confirmed that they would.

**7. Scottish Forestry Annual Reports & Accounts 2020/2021 (05/22)**

GH presented the paper, highlighting the significant underspend, and the creditor to SG.

ER stated that both the underspend and the unnecessary drawdown were concerns, and that they had been concerns on the previous annual accounts also. She asked if there were any issues that needed to be addressed. DS stated that there were two factors that caused this to happen, in November and December land agents told Scottish Forestry that they would plant 12,000ha but storms meant that there was a reallocation of focus and labour. Also during the year it was identified that there was more co-financing income available that could only be spent by Forestry, the figures were only confirmed close to the year end. JS echoed the views of ER and as noted in item four above, the importance of improving both forecasting and cash management was highlighted.

***Action Point:*** *GH and RM to review and enhance cash drawdown processes and procedures for 2022-23, and report back to the December meeting of the AAC.*

**6. External Audit – Annual Audit Report 2021-22 (04/22)**

MT introduced the paper talking about the format of the report and the Audit Scotland letter. The main message was that the accounts were unqualified and unadjusted and that there were no unadjusted errors that they were aware.

MT went on to talk about the Annual Audit Report highlighting the materiality levels in Exhibit 1 and then spoke about the four significant findings within Exhibit 2, which included the management of budget and outturn discussed in item seven. ER noted that recommendation one around budget monitoring and outturn was very similar to the recommendation in the Annual Audit Report in 2020-21, and again highlighted the issues about monitoring and cash drawdown discussed under the previous item.

MT went on to speak about the signing process including the next steps.

At this point the Annual Report and Accounts for 2021-22 were approved.

MT then spoke about the handover process to the new auditors Grant Thornton, where a general discussion took place.

***Action Point:*** *MT and Audit Scotland to lead on handover to Grant Thornton, but to keep DS and RM informed, with a view to building good initial relationships with the new senior team.*

**8. AAC Assessment (06/22)**

PT spoke about the paper and a discussion took place with the following points agreed

* The terms of reference to be reviewed at the next meeting
* The quorum to remain as two non-executives
* For induction of new non-executives. ***Action Point a:*** *A needs analysis to be done by the chair, PT and DS to discuss*
* Assessing performance and attendance, agreed to carry this out in conjunction with the financial year. ***Action Point b:*** *PT and DS to discuss*
* Move to four meetings per year, ideally one week before SAG.
* Draft governance statement should be brought to the Committee at the meeting before the accounts are signed. ***Action Point c:*** *DS, RM & GH to write paper.* Also a paper to be written for the next meeting on how the statement is pulled together, ***Action Point d:*** *RM & GH to write paper*.
* Fraud avoidance should be discussed on a regular basis, ***Action Point e:*** *Agenda programme to be developed with Fraud as a periodic interval*
* Review of External Auditors should be carried out by the non-execs on a regular basis with feedback made to the Audit Partner, ***Action Point f:*** *Standing annual agenda item to be documented*

It was also decided that AAC self-assessment should be repeated annually.
***Action Point g:*** *PT, RM and GH to propose modifications to the one-size-fits-all current template to better reflect the Non-Executives role with SF*

**9. Information and Governance (07/22)**

GH gave a brief introduction to the paper.

JS asked about the resourcing that was mentioned in the paper. DS stated that this was the biggest issue and staff are being employed to come in and do the work. ER asked about the data protection issues and would the new SLA resolve the issues. DS stated that the data and information management risks around personal data held by HR formed a key part of the SLA discussions. Whilst it is never possible to eliminate risk entirely, lessons had been learned from the mistakes and breaches identified, and further training of staff is planned.

AT asked if this is regularly reported at SET, DS stated that it was.

**10. AOB**

The next meeting has been provisionally set for the start of December 2022. ER asked for the four meetings in 2023 to be scheduled shortly.

***Action Point:*** *GH to send out proposed dates of meetings for 2023*

**11. Discussion between Non-Executives and Auditors**

The auditors and the Non-Executives agreed that no private discussion was necessary at this time.