**SCOTTISH FORESTRY**

**AUDIT & ASSURANCE COMMITTEE MEETING**

**7 December 2021 – Teams Meeting**

**Present**

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

James Stuart (JS), Non-Executive (in attendance until Item 6)

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

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

 Doug Howieson (DH), Head of Operational Delivery

 Gary Henderson (GH), Senior Finance Manager

 Marliese Richmond (MR) Corporate Planning and Governance Manager (Item 3)

 Alasdair Duncan (AD) Digital Business Partner (Item 3)

 Mark Taylor (MT), Audit Scotland

 Alison Thomson (AT), Internal Audit, Scottish Government

 Kate Moffatt (KM), Internal Audit, Scottish Government

**Apologies** Eleanor Ryan (ER), Non-Executive

 Stephanie Harold (SH), Audit Scotland

 Emma Keggans (EK), Audit Scotland

Action Point Summary

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| Action Point Ref | Description | Status | Completion date | Owner |
| 24/20 (a) | RM to bring the results of the risk review and outcome of SET recommendations to the committee | Closed |  | RM |
| 24/20 (b) | BC to look into feasibility of tidying up (removing/closing/updating) prior years data/claims on casebook | Closed |  | DH |
| 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 |
| 08/21 | RM to develop update of risk register and submit this to Non-execs by February 2022 | Open |  | RM |
| 09/21 | To incorporate recommendations on the audit tracker | Open |  | RM / GH |

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

PT welcomed everyone to the Audit and Assurance Committee (AAC) and asked if there were any conflicts of interest. There were no conflicts of interest. PT also noted that ER had provided him with comments on the meeting papers which he had discussed with JS and, together, they would bring those comments to the meeting’s attention.

**2. Minutes / Matters Arising**

The minutes of the previous meeting were accepted as a true and accurate record. ER and PT asked the Minutes be issued more promptly to aid attendees to recall and comment more effectively. RM agreed to do so.

**3. Risk Register and Update (08/21)**

RM introduced the paper talking about the move of recording the risk register onto Microsoft Lists and explained the benefits of the change. MR and AD gave a demonstration of the new system stating that the risk owners would update the document. JS deemed that this was a positive step offering a mechanism for staff to see the risks and that this should be consumed into the culture to ensure the register works. PT asked who was the overall risk owner. MR commented that the Corporate Services team monitor the register and if any there are any risks not being addressed are referred to DS.

KM asked if there was a way to include the movement of the risk and even with an audit tracker what is being done to stop people overwriting the document in error. AD stated that they would look into how the system could stop overwriting, and that he would look into including arrows indicating is a risk was rising, stable or diminishing over time.

DS asked about the consistency in input of risk and the scoring to ensure a consistent approach. MR stated there was guidance on what should be included in the text and training sessions can be undertaken to demonstrate the movement of the risk.

ER (via email) stated that she strongly supports the idea of using a tool that provides an audit trail and can produce reports with different aspects of the risks for different audiences. She suggested that the ranking of risks focus on the residual rather than the raw risk score, and also that it would be helpful to have an issue log as well as a risk register.

JS would like to look at this again in advance of the next meeting, which was agreed.

**Action Point** - RM to develop update of risk register and submit this to Non-execs by February 2022

**4. Audit Recommendations Tracker update (09/21)**

RM introduced the paper stating that the recent Internal Audit recommendations are included in the document. Progress has been slower in addressing the recommendations due to other competing pressures including COP26, budget process and dealing with impacts of recent storms. KM asked if a column for Internal Audit follow up could be included. JS asked if the date that it was last updated could be added. RM stated that he would incorporate the recommendations into the document.

The paper was noted by the members.

**Action Point** – RM to incorporate recommendations on the audit tracker

**5. Financial Update – 2021/22 (10/21)**

RH gave a brief summary of the Finance update paper as at Sep 21, also covering the opening budget and budget adjustments during the year. With the work carried out by Finance and the Grants team based on early estimates of not achieving the planting targets we have predicted an underspend of £5m in woodland grants expenditure. This saving will offset the cross border unfunded pressure. In addition there has been movement in staffing, with recruitment to fill these posts and new posts taking longer through bottlenecks in HR plus savings in building costs due to Covid has meant additional savings.

JS asked if we seek more money from Scottish Government but then hand money back was there something systemically flawed in how we match funding to planting. Would it help if there was a way to front load planting. DH replied that the planting season and the year-end do not align to which DS further stated that unfortunately the majority of activity is in the last three months of the year and is subject to weather conditions. JS then asked how we might go about increasing interest in planting and over committing to thereby achieve the planting target. A general discussion took place on various options that may be considered to increase demand, planting earlier e.g. community woodland creation and the limitations on achieving targets.

ER commented (by email) that we know that there is a seasonal pattern to the forestry grants and that money will be committed but eventually paid either right at the end of the financial year or in a subsequent financial year – but having spent only 1% of the woodland grants budget did make me pause.  The paper says that they anticipate c£5m underspend and ER asked if SF is expecting still to get c£59m fully committed or paid by year end and is most of that in hand?

RM stated that whilst a net c£59m of contracts were approved it is anticipated that a net c£54m of works will be completed by 31 March 2022. This will all be dependent on a variety of factors including the weather

**6. Mid-Long Term Financing Risks and Impacts (11/21)**

JS left the meeting at this point and stated that he had no comments on the remaining papers.

RH presented the paper and stated that because of discussions on the 2022-23 budget process with Scottish Government and due to the loss of EU Income there is approximately £14m shortfall in each of the next four years in the capital expenditure budget. After discussions in the government additional monies have been secured for the 2022-23 capital budget. The capital budget funds the new planting and any shortfall here could result in the planting target not being achieved.

MT asked has this been caused by the UK Government not passing on the equivalent in EU income as budget or Scottish Government not passing this on. RM stated that this is a politically disputed area and is not just affecting forestry.

PT noted that the risk would only fully materialise if we spend all of the grant. That, however, seemed unlikely taking account of the previous paper and discussion. He also asked if, in future budget projections, there should be linkage between staff costs and planting targets since if some of the additional staff were to meet increases planting targets whereas recent results and our previous discussion indicated that achieving increased targets might not be fixed simply by increasing staff levels. He noted that a sceptical central finance function might want a clear link between more staff and more planting. ER asked that there should be linkages between woodland grants and levels of staff through more robust modelling which would assist in the negotiations with Scottish Government on funding levels in relation to anticipated woodland creation.

Staff resourcing requirements linked to increasing planting targets and future working model have been factored into the recent Spending Review round. This will be continued in next Resource SR commission. We also continue to highlight the linkage with Capital SR despite SG undertaking these as separate exercises.

ER noted (by email) that as we are at the midpoint of the financial year, and given challenges on forecasting in the previous financial year, should we be seeing a forecast of expenditure on all budget lines in the annex table by this stage?  Having forecast spend now and updating it through to the end of the financial year may also start to provide good learning for future years forecasting.

RM added that any savings that are identified during the year are transferred to the contingency fund or in the case of this year handed back to Scottish Government as part of the budgeting process. The figures shown in the forecast column in the Annex and against budget headings. The forecasts are updated on a monthly basis through budget monitoring process and reported to SET through regular finance update.

The Paper was noted.

**7. Internal Audit Plan & Progress Report (12/21)**

KM presented the paper, stating that they were making good progress and are on target to finish the audits on time. The 2022-23 audit plan discussions with management will take place in January 2022 with the outcome being brought to the next AAC meeting. The Finance and Business Support team are responding to initial IA questionnaire and fieldwork to commence on return from Xmas break.

AT spoke about the two audits in the paper saying that both were given an opinion of “Reasonable Assurance” and highlighted the one high recommendation within the Grants audit

ER noted (by email) that there is one red recommendation on the Forestry Grant Scheme audit report, which relates to a lack of staff capability on reporting.  The management action noted is ‘SF (Operational Delivery & Finance areas) will seek to position, as a priority, a MI reporting resource via the SF Improvement Programme’ with a target date of Dec 2021.  The Improvement Programme Board discussion was about a complete and positive revamp of the programme, moving through a transitional stage as a new programme is scoped and implemented.  Given all that change, it would be good to know whether the planned action is still being taken as part of the Improvement Programme and asked whether it is on track for this month.

DH stated that the response to the high recommendation will still take place but due to competing pressures on a limited resource the December date will not be achieved.

After a short discussion the paper was noted.

**8. External Audit Plan & Progress Report (13/21)**

MT spoke about the paper highlighting that the 2020-21 audit has now been concluded with the Annual Report and Accounts being laid in Parliament.

Due to Covid, Audit Scotland are three months behind their normal timetable and in the new year they will be in touch with Finance to discuss the 2021-22 audit. The new audit timetable will be brought to the next AAC meeting.

ER noted that it was very helpful to be reminded of Audit Scotland’s recent reports and to see an overview of the strategic risks and issues from their perspective.

DS asked about how Audit Scotland were intending to carry out an audit on climate change. MT stated it was early days and they may look at this area through the annual business sustainability report.

The paper was noted

**9. Business Sustainability Update**

RM gave a short update on our responsibility under business sustainability and that due to the size of the agency we were given special permission to submit an abbreviated version of the report for 2020-21. Work is currently underway on data capture for the current year to ensure we can produce a fully compliant return.

This was noted

**10. AOB**

No other business

The next meeting has been provisionally set for March 2022

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

PT noted that in the absence of ER and JS the planned discussion with IA at the end of the meeting could not take place and asked RM if he could coordinate a new time and date for that discussion between the NEAs and IA as soon as practicable.

**Action Point**: RM to arrange with the NEAs and IA.