

Nick Ramsay, AM
Chair of Public Accounts Committee

By email: SeneddPAC@Assembly.Wales

Dear Nick

Re: Progress in implementing the recommendations of the Grant Thornton review into timber sales

I am writing to update you on our progress in implementing the recommendations of the Grant Thornton review into timber sales.

As you will recall, we have set up a project to implement the recommendations and address the issues. This is managed by our Head of Procurement and overseen by a Project Board, with an additional layer of scrutiny, challenge and assurance provided by a Board oversight group that is chaired by myself and involves three other Board Members, one of whom is the chair of Audit and Risk Assurance Committee.

This group recently requested an independent validation exercise of the project to assure us that the project was delivering at pace and is on track to create the sea-change we want.

We commissioned Grant Thornton to undertake this exercise, because of their existing in-depth knowledge of this area of the business and the recommendations they made in February.

I am pleased to report that Grant Thornton have concluded that we have made good progress to date (a copy of their letter is attached). They also acknowledge, as do we, that there is still much to do and that full transformation will take time.

Since February when we published the review findings, we have:

- improved governance including a Board oversight group that is scrutinising and advising the change project

- developed new terms and conditions for timber sales contracts, which will be implemented in the September sale
- developed new internal sales processes to replace old legacy ones
- initiated a training programme for staff in these new processes, which is ongoing
- invested significant time in re-setting and improving our relationship with our timber customers
- We have also developed a new structure for the timber sales area, appointed a new Head of Commercial and Head of Land Stewardship, and are currently recruiting to the rest of the new structure, which will strengthen the team.

I fully understand the scale and complexity of what we are doing here. The change and improvement needed is significant and the cultural shift required cannot be underestimated. I am very conscious of this and remain committed to this challenge, but I can assure you that we are moving in the right direction.

I will update you again prior to our next evidence session on 9 December 2019.

Best wishes



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5 July 2019

Dear Miss Pillman

Natural Resources Wales (NRW) – Governance of Timber Sales

1 Introduction

- 1.1 Thank you for your instruction to undertake further work in this matter.
- 1.2 You have asked us to comment on the progress of the Timber Sales Governance Project (the Project) being undertaken by NRW in addressing the recommendations in the Grant Thornton report of 3 February 2019 (the Grant Thornton report).
- 1.3 This letter is confidential and has been prepared exclusively for NRW. Our duty of care is solely to NRW. It should not be used, reproduced or circulated to any other party in whole or in part, without our prior written consent.
- 1.4 You have confirmed that NRW has agreed the factual accuracy of this letter and schedule.

2 Scope and limitations

- 2.1 In accordance with the agreed scope, we have held discussions with a number of individuals within NRW who are involved in the Project and have considered supporting documentation. Our work is limited in a number of ways:

- 2.1.1. It is not a full consideration of the operation of the forestry function within NRW. In addition, the corporate governance arrangements within NRW are outside the scope of our work

2.1.2. We have, as agreed with NRW, discussed the Project with a number of the Project leads and key staff involved in the Project. We have not discussed our work with individuals outside of the Project team

2.1.3. This engagement does not constitute an audit in accordance with Auditing Standards. We have relied on the documents and information provided to us as being accurate and genuine. To the extent that any statements we have relied upon are not established as accurate, it may be necessary to review our conclusions. If further information is produced and brought to our attention after service of this letter, we reserve the right to revise our opinions as appropriate. We have not undertaken any further testing of detailed information such as contract documentation

2.1.4. It is too early for testing of new procedures and processes relating to the Project as many are not yet embedded and it is important that such an assessment is performed most likely in late 2019 and during 2020.

3 Consideration of the Project

3.1 We first comment on the structure of the Project and then consider the actions taken and planned.

Project structure

3.2 NRW has responded positively to the Grant Thornton report and has established a project team which appears to be well structured. In support of this conclusion we note:

3.2.1. There have been minuted weekly meetings of the Timber Sales Governance Project Board. This is chaired by NRW's Finance Director and you, as the Chief Executive, are an attendee alongside senior Project team members. We consider that this demonstrates importance placed on the Project

3.2.2. There have also been minuted monthly NRW Board Oversight Group meetings. There is some overlap of attendees with the Project Board, with additional attendees including NRW's Chair and the Chair of the Audit and Risk Assurance Committee (ARAC), plus another two NRW Board members

3.2.3. The work of the Project team has been allocated to a number of workstreams, with ownership clearly set out and actions and timelines noted

3.2.4. The Project has been supported by dedicated resource, including a number of individuals reallocated from their normal roles.

Actions taken and planned

3.3 While there have been completed actions to date, new actions have been identified. We conclude that overall the Project has made good progress. We consider it reasonable to expect the Project to take time given the serious nature of the issues identified in the Grant Thornton report. We also note that the Project team has had to address a number of issues including changes of staff in the business units, the impact of Organisational Design (OD) on the staffing structure and further governance issues identified by NRW since the Grant Thornton report.

3.4 We attach at **Schedule 1** a summary of actions taken to date and planned. This is based on information provided by NRW and verification of this information is not within the scope of this engagement. The schedule focusses on key actions and is not intended to be a comprehensive list. It shows the scale of change being made. We note:

3.4.1. Intranet pages are being developed to provide guidance and links to the latest versions of governance documents. This includes the Timber Sales Governance Standards Document which has been issued and sets out clear rules and expectations of ways of working (including links to central functions). It is anticipated there will be mandatory training for all staff to embed the new ways of working

3.4.2. A portal is to be launched to hold copies of all NRW commercial contracts

3.4.3. System improvements are being made including making changes to the Timber Marketing Package system (TMP) to ensure authorisation complies with Financial Scheme of Delegation limits and the use of Power BI to provide management information on timber sales

3.4.4. New authorisation procedures have been implemented including the use of manual processes for monitoring contracts nearing volume limits

3.4.5. Agreement of new terms and conditions. These have been discussed with the industry and are planned to be in place for the September e-sales

3.4.6. Legacy issues are being addressed including monitoring the completion of Long-term Timber contracts (LTCs) and seeking to exit Standing Sales Plus contracts (SS+)

3.4.7. Governance of ARAC is being improved with more robust scrutiny

3.4.8. Finance are developing bottom up budgets and improved income and expenditure accounts

3.4.9. Internal Audit has completed a number of reviews including a review of LTCs and the governance of e-sales. Further work is planned under the 2019/20 internal audit plan. We note that resourcing requirements are to be reviewed to ensure coverage of the risk areas identified by internal audit.

4 Summary

4.1 We note the pace and evidence of determination within NRW to address the issues identified in the Grant Thornton report. This requires fundamental change within NRW and is therefore challenging and will take time. We consider that progress to date has been good. It will be important to ensure that there is continued focus on this Project and on governance after the Project ends, including testing of the new procedures and processes.

4.2 There are a number of challenges and we recommend that Management ensure these are addressed as the Project progresses. These include:

4.2.1. Senior management need to ensure that this Project does not result in them being distracted from other areas of the business

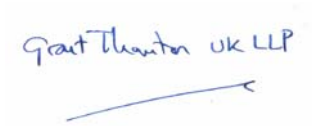
4.2.2. A risk of being focussed on addressing the issues noted in the Grant Thornton report, rather than establishing plans to achieve desired end outcomes

4.2.3. Risks given the change in structure under OD. These include level of resource and lack of clarity of roles and responsibilities. We note the importance to the Project's delivery of actions planned over the coming six months

4.2.4. Scope creep with further extensions of time. It will be important to ensure that there is a smooth transition from the Project to the embedding of the new systems in the "business as usual" functions

4.3 We thank you for the co-operation we have received from NRW in undertaking this further work.

Yours sincerely

A handwritten signature in blue ink that reads "Grant Thornton UK LLP". Below the text is a horizontal line that ends in an arrowhead pointing to the right.

GRANT THORNTON UK LLP

Schedule One – Summary of actions taken to date and planned actions

(i) Contract governance

| Area | Action taken | Planned actions |
|---------------------------|---|---|
| Policies and procedures | <p>Version three of the timber sales governance standards was issued on 1 May 2019. Version four of the document was issued on 1 July 2019. Version three sets out many policies and procedures including but not limited to best practices of working, premarket engagement to improve sales planning and clear responsibilities of roles of NRW staff.</p> <p>Timber sales qualification forms are to be completed by all customers before being allowed to bid.</p> <p>Improved communication within NRW on the wider issues highlighted in the initial Grant Thornton report and the resulting changes to policies and process, has ensured greater awareness of the increased governance requirements across the timber sales team and the wider organisation.</p> <p>Communications have improved with the timber trade to include: meetings with Confor and NRW senior staff; trade liaison meetings; consultation on changes; bi-monthly newsletters; face to face meetings with customers and improved response times. This has resulted in improved transparency and visibility of new processes and ways of working and is resulting in ensuring acceptance of the new approach, for example terms and conditions and pre-qualification.</p> | <p>Mandatory training of all staff is planned by the end of November 2019 to embed the new ways of working.</p> <p>Intranet pages are to be published, regular Timber Sales and Harvesting Managers meetings are continuing and guidance for staff and training on contract management is being developed.</p> |
| Contract terms | <p>NRW has undertaken a review of the contract terms and has liaised with the industry with the main aim of NRW having more control over contracts and being able to terminate poorly performing contracts. The timber sales governance standards version three requires that NRW's legal terms and conditions of contract cannot be amended and if specific contract clauses are needed these must be taken from a dedicated suite of clauses and not drafted at the contract manager's discretion.</p> | <p>The new terms will be issued in advance of the September e-sales. Consultation has taken place with both staff and trade and training sessions and further guidance is being developed to strengthen the contract management approach to all contracts.</p> <p>The contract suite of clauses is planned to be reviewed twice a year by the Head of Sales and should Harvest Contract Managers have a requirement to add a new contract clause, they must obtain the agreement of the Head of Sales before it can be added.</p> |
| Standing Sales Plus (SS+) | <p>As stated in the Grant Thornton report, no new SS+ contracts have been let. NRW has undertaken a detailed review to determine the status of each SS+ contracts.</p> | <p>NRW is negotiating an exit from the SS+ contracts.</p> |

| | | |
|--------------------------------|---|--|
| Timber marketing package (TMP) | A project plan has been devised with phases - TMP one to five. TMP phases one to three address the Grant Thornton report and four to five address the backlog of system issues and lower priority changes which would be desirable to be made. | TMP one to three is planned to be completed by the end of September 2019. This will include the implementation of an automated process to ensure authorisation is in accordance with the Financial Scheme of Delegation. TMP four to five is planned to be completed by the end of June 2020. |
| Long term contracts (LTCs) | Internal audit has completed a review of all LTCs. It was discovered that there are six LTCs and not the two stated to Grant Thornton. | Completion of existing LTCs is to be closely monitored. In due course NRW will determine the extent to which new LTCs should be entered into. |
| Contract monitoring | <p>An improved authorisation process has been implemented. This includes segregation of duties in monitoring of contract volumes with a manual authorisation process in place for contracts approaching volume and time thresholds. Contract authorisation limits are now on a cumulative basis rather than the value of the amendment alone.</p> <p>Monthly reports are being issued to contract managers to allow them to monitor contract progress more effectively.</p> | Increased use of automated authorisation process through the development of TMP. In addition, the use of Power BI to prepare reports for the team and senior management highlighting the profile of sales and key contract information. A portal is to be introduced to hold copies of all commercial contracts to improve visibility. |
| Evidencing decisions | Expectations are set out in the timber sales governance standards document. | Mandatory training will help embed the requirement to evidence decisions. Also, there is a pre-sales narrative which is required to be completed when setting up a sale event to evidence decisions made regarding the way in which each area will be offered for sale. |

(ii) Finance

| Area | Action taken | Planned actions |
|---------------------------------------|---|--|
| Budget | Work has been undertaken within the business to ensure that more detail-based budgets for restocking and civil works will be in operation by the place-based budget deadline of 12 July. | Initial detailed budgets will be reviewed and refined with the new budget managers and any areas of estimation replaced with fully costed detail-based budgets. This second iteration will be in place by September 2019, alongside detailed budgets for harvesting and marketing. |
| Timber income and expenditure account | Progress has been made in transferring the existing timber income and expenditure report to the new cost centre structure and adding place-based reports for each of the new operations areas. Narrative commentary has already been embedded into the reports. | Place based reports will be produced from July 2019 month end and will be issued to budget managers and the Land Stewardship and Commercial Business Boards. KPIs summarising key data from the income and expenditure report will be added to the monthly Executive Team financial management information report. |
| Lower level reporting | The scope for short term detailed reporting has been assessed and the capabilities of Power BI reviewed. An initial set of new reports has been introduced. | Coupe and contract level reporting will be linked to existing Power BI reports to cover income and costs recorded at contract level. Further work will continue of assessing the potential to allocate staff and other non-staff costs once the new operational structure is fully implemented. |

(iii) Organisational governance

| Area | Action taken | Planned actions |
|------------------------|---|---|
| ARAC | An initial review of how ARAC carries out its business is resulting in strengthening focus on risk management, internal audit recommendations and the role of ARAC. There has been a new Chair of ARAC and membership changes. | ARAC plan to carry out an effectiveness review during July 2019. ARAC terms of reference are being reviewed as part of a wider governance review of the Board. |
| Role of internal audit | Additional internal audit reviews were carried out in timber areas during 2018/19. There has been a re-focus of Internal Audit on a more 'traditional' internal audit role and agreement of the 2019/20 audit plan. | Ongoing discussions are planned to ensure that critical areas and emerging risks are covered by the 2019/20 Internal Audit plan. |

(iv) Other organisational aspects

| Area | Action taken | Planned actions |
|--------------------------------------|--|--|
| Interaction of teams within forestry | Guidance has been issued about across department working and the new OD structures implemented on 1st July will ensure greater integration across previously dispersed teams. | Mandatory training of all staff is planned by the end of November 2019 to embed the new ways of working. |
| Interaction with legal | <p>The timber sales governance standards document version three states the need to commission all legal advice through the legal team. There is a gateway process for all legal advice which is controlled and monitored by the internal legal team. A commercial lawyer has been brought into the Project to add additional robustness and legal clarity in the short to medium term.</p> <p>Additional training on state aid and public law has taken place as part of a continuous training approach.</p> | The Commercial Governance role within Timber Sales, will work closely with the legal team to ensure compliance and visibility. This will be reinforced by the wider governance role under the Head of Commercial. |
| Interaction with procurement | The timber sales governance standards document version three states under the procurement heading that all teams are expected to work together to ensure consistent robust governance procedures and knowledge sharing. There is also the requirement for Head of Commercial to involve procurement where any part of the sales contract includes elements of procurement such as Buy Back and Retained Timber Element. | The new commercial function, formed as a result of OD includes: Timber Sales, Business Development and Procurement. This will ensure a more transparent and robust approach to all commercial activity across NRW. It will promote the involvement of the Procurement Manager and Business Development Manager in all new activities under the overall accountability of Head of Commercial. |
| People | All staff now have personal development plans in place. | Mandatory training for all staff is planned by the end of the year. |
| Whistleblowing/ complaints process | <p>The NRW Whistle blowing policy has been reviewed and compared against best practice and other organisations (public and private). Overall it was concluded that the policy is fit for purpose, but some amendments are required. The policy review was signed off by the Executive Team.</p> <p>A review is underway to examine the process by which internal concerns are addressed.</p> | <p>As a result of the review an anonymous telephone hotline was identified as an area for improvement. The policy to include the new hotline will be launched over the summer of 2019. This includes the publishing of a landing page on the intranet for staff to assist them in guiding concerns to the right place. Awareness of this will be highlighted at the compliance and governance training starting from September 2019.</p> <p>A proposal regarding the resourcing of the investigations has been approved by Executive Team. As a result, the majority of investigations will be undertaken internally by appropriate managers. This is being developed further with the Leadership Team. Work on the whistleblowing policy review will also be taken to ARAC and the Board.</p> |