

24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ

Chair, Public Accounts Committee
National Assembly for Wales
Cardiff
CF99 1NA

Tel / Ffôn: 029 2032 0500
Fax / Ffacs: 029 2032 0600
Textphone / Ffôn testun: 029 2032 0660
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

Reference: AC/176/caf

Date issued: 13 January 2020

Dear Chair

Wales Audit Office timber sales governance review

Whilst undertaking the audit of Natural Resources Wales' (NRW) 2015-16, 2016-17 and 2017-18 accounts, my predecessor identified significant deficiencies in the way in which NRW sold timber to the market. These included concerns over decision-making, contracting arrangements, record-keeping and compliance with legal and regulatory requirements. These matters led to my predecessor qualifying his regularity opinion on NRW's accounts for each of those years of account. It also led to the Public Accounts Committee (PAC) conducting inquiries and issuing critical reports in respect of NRW's performance on these matters.

In late 2018, NRW commissioned Grant Thornton to undertake a review of its governance of timber sales. The purpose of the review was to assist NRW in addressing concerns identified by the Auditor General and the PAC. Grant Thornton's report was subsequently published in February 2019 and it identified many areas for improvement. These ranged from basic control processes to higher level areas such as automation, reporting and interaction with central functions. NRW accepted the findings of the Grant Thornton review in full.

In January 2019, on becoming aware of the emerging Grant Thornton findings, NRW established an internal 'Timber Sales Governance' project to address the long-standing weaknesses identified in its management of timber sales and the wider deficiencies in NRW's governance and oversight arrangements for this area of its operations. The project specifically addresses the recommendations arising from the Grant Thornton review and from recommendations for improvement set out in my Management Letters to NRW, as well as additional matters identified by NRW itself.

As set out in NRW's letter to the PAC on 9 December 2019, the project is wide-ranging, encompassing six connected workstreams. Whilst the project is focussed on improving the way in which NRW manages its timber sales, its scope also includes consideration of wider organisational governance and compliance matters, with the aim of ensuring that arrangements are robust and consistent across all NRW's operations. NRW has structured the project in two phases.

Phase one, the 'recovery' phase, has now been completed and phase two, the 'embedding' phase, began in December 2019 and is due to conclude in March 2020.

In early 2019, following concerns raised in the Grant Thornton report relating to a form of timber sales contract first introduced by NRW in 2016-17 called 'Standing Sales Plus' (SS+), my auditors carried out a review of these contracts as part of the audit of the 2018-19 accounts. I concluded that these contracts were irregular and as a consequence, in July 2019, I qualified my regularity opinion on NRW's 2018-19 accounts. I have provided a Supplementary Memorandum to the PAC that sets out in detail my reasons for the qualification. However, I consider that the matters I have reported on in respect of SS+ contracts arose from decisions taken several years ago and pre-date the improved arrangements NRW has now established. I also note, that as soon as NRW became aware of concerns over SS+ contracts, it suspended all further awards of this type of contract.

In July 2019, Grant Thornton reported the finding of a further review it had been commissioned to undertake on the progress NRW had made in addressing the recommendations made in its February 2019 report. Grant Thornton concluded NRW had made good progress to date, noting the importance of continued focus on governance after the project ends. They also highlighted a number of key challenges NRW will need to ensure it addressed as the project continues.

In October 2019 my auditors undertook a high-level assessment of the progress NRW is currently making on its Timber Sales Governance Project which involved discussions with the relevant responsible officers, reviewing supporting evidence and substantively testing timber sales contracts. The audit work undertaken focused on the progress made by NRW within phase one of the project to address the deficiencies identified in the Grant Thornton report and in previous audit reports.

Set out below is a short summary of the conclusions of this work. I have satisfied myself that:

- The project workstreams and the project overall are being appropriately and robustly managed and scrutinised. There has been clear senior level direction and impetus given to the project, with the tone clearly set from the outset by the Board and Chief Executive. The project itself has had significant senior officer involvement and support from the outset and robust scrutiny and challenge has been given by the NRW Board oversight group. The level of scrutiny being afforded to timber and to the wider organisational controls by Internal Audit and the Audit and Risk Assurance Committee has also improved.
- NRW has drawn up appropriately detailed action plans to support each of the project's workstreams and I am satisfied that good progress is being made to address the agreed actions across all the workstreams. At the time of the review, the finance workstream was behind where it needed to be in terms of progress however NRW had recognised this itself and was putting plans in place to address this. It is pleasing to note that the project has not just

focused on timber sales but has also considered the wider governance arrangements that needed to be strengthened and there is alignment of actions to the new Organisational Design that was introduced by NRW this summer.

- Significant work has been done to ensure a new suite of timber sales governance standards reflects the way NRW expects its officers to operate when selling timber. This has been supported by training and improvement in compliance controls. Whilst excellent progress has been made to date, it is critical that as part of phase two of the project, all the foundations are put in place to ensure these standards become fully embedded in the culture and day to day operations of the timber sales staff. Unless and until the standards are owned by staff there is a risk that once the project ends, there could be a reversion to unacceptable standards of practice when selling timber.
- NRW's new Organisational Design has fundamentally changed the way it operates, with new place-based teams and business boards established to encourage collective leadership and decision-making. This has helped to breakdown organisational silos by bringing together staff from different disciplines and with different experiences and help NRW identify and address examples of poor working practices. However, it was evident from the discussions my auditors held with NRW's officers that not everyone was sufficiently clear on the lines of accountability within the new organisational structure and in particular, the relationship between functional and place-based responsibilities. However, this new structure has only recently been introduced, and NRW has acknowledged that further work is needed to ensure lines of accountability and decision-making responsibilities are clear and well understand.

In conclusion, I agree with NRW's assessment that good progress has been made to date on the Timber Sales Governance Project. The project has entered its second phase, focused on consolidating and embedding the changes and progress made to date. This is undoubtedly a crucial part of the project and NRW must maintain the same level of focus on the project as it has done to date if it is to achieve and embed the fundamental changes needed to address the long-standing weaknesses previously identified.

I hope that this update is of assistance to you and your Committee in your continuing scrutiny work.

Yours sincerely



ADRIAN CROMPTON

Auditor General for Wales