

Agenda – Y Pwyllgor Cyfrifon Cyhoeddus

Lleoliad: I gael rhagor o wybodaeth cysylltwch a:
Ystafell Bwyllgora 3 – Y Senedd Fay Bowen
Dyddiad: Dydd Llun, 11 Chwefror 2019 Clerc y Pwyllgor
Amser: 13.15 0300 200 6565
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(Rhag-gyfarfod)

(13.15 – 13.45)

1 Cyflwyniad, ymddiheuriadau, dirprwyon a datgan buddiannau

(13.45)

2 Cyfoeth Naturiol Cymru: Adroddiad Blynyddol a Chyfrifon ar gyfer 2017–18

(13.45 – 15.15)

(Tudalennau 1 – 63)

Papur briffio gan y Gwasanaeth Ymchwil

PAC(5)–04–19 Papur 1 – Llythyr gan Clare Pillman, Prif Weithredwr, Cyfoeth Naturiol Cymru (4 Chwefror 2019)

PAC(5)–04–19 Papur 2 – Llythyr gan Sir David Henshaw, Cadeirydd, Cyfoeth Naturiol Cymru (4 Chwefror 2019)

PAC(5)–04–19 Paper 3 – Cylch gorchwyl yr Adolygiad Annibynnol ar weithrediadau coedwigaeth masnachol Cyfoeth Naturiol Cymru (Awst 2018)

PAC(5)–04–19 Papur 4 – Adolygiad Annibynnol Grant Thornton o weithrediadau coedwigaeth masnachol Cyfoeth Naturiol Cymru

PAC(5)–04–19 Paper 5 – Strwythur Tîm Gweithredol Cyfoeth Naturiol Cymru (Chwefror 2019)

Clare Pillman – Prif Weithredwr, Cyfoeth Naturiol Cymru

Syr David Henshaw – Cadeirydd, Cyfoeth Naturiol Cymru



3 Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o'r cyfarfod ar gyfer y busnes canlynol:

(15.15)

Eitem 4

4 Cyfoeth Naturiol Cymru: Trafod y dystiolaeth a ddaeth i law

(15.15 -15.45)

Mae cyfyngiadau ar y ddogfen hon



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04 Chwefror 2019

Mr N Ramsay
Y Pwyllgor Cyfrifon Cyhoeddus

By email: SeneddPAC@Assembly.Wales

Annwyl Nick,

Fel y gofynnwyd yn eich adroddiad ar 26 Tachwedd 2018, rwyf nawr yn anfon canfyddiadau ac argymhellion yr adolygiad annibynnol o'n gweithrediadau coedwigaeth masnachol ac ymateb a chamau gweithredu CNC. Edrychaf ymlaen at drafod hyn gyda chi a'ch cydweithwyr pan fyddwn yn cyfarfod yr wythnos nesaf.

Er mwyn gosod hyn yn ei gyd-destun, ar ôl i'n Hadroddiad Blynyddol a'n Cyfrifon gael eu hamodi yr haf diwethaf ac ymholiad dilynol eich Pwyllgor, ymrwymais i gynnal adolygiad o weithrediadau coedwigaeth masnachol CNC. Ym mis Awst 2018 penodais Grant Thornton i gynnal adolygiad annibynnol ac anfonais y cylch gorchwyl ichi (wedi'i atodi).

Mae'n galonogol bod ein staff yn fodlon cymryd rhan yn yr adolygiad. O ganlyniad, mae'r adroddiad yn un pellgyrhaeddol ac yn rhoi darlun llawn inni o berfformiad y maes busnes hwn. Er bod y canfyddiadau yn amhleserus i'w darllen, maent hefyd yn offeryn pwerus ar gyfer newid. Rydym eisoes wedi cymryd camau gweithredu, gan adeiladu ar y gwaith a wnaethom wrth ymateb i ymchwiliadau blaenorol Swyddfa Archwilio Cymru a'ch adroddiadau, er mwyn mynd i'r afael â'r holl faterion a nodwyd gan Grant Thornton.

Byddwch yn gweld ein hymateb a'n camau gweithredu ochr yn ochr â'r canfyddiadau a'r argymhellion. Rydym eisoes yn gwneud cynnydd da ac yn gweithio'n gyflym.

- Rydym wedi amlinellu safonau Llywodraethu Gwerthiant Pren newydd, a fydd yn cynnwys pob maes yn argymhellion Grant Thornton. Ar hyn o bryd rydym yn hyfforddi staff ar y gweithdrefnau newydd hyn, cyn eu cwblhau'n derfynol erbyn diwedd mis Mawrth. Yn y dyfodol bydd y rhain yn cael eu hadolygu'n flynyddol.
- O fis Rhagfyr 2018 ymlaen rydym wedi cyflwyno amodau a thelerau newydd i'r holl gontractau newydd.
- Mae'r holl staff yn cael hyfforddiant Cyfraith Gyhoeddus ac mae'r timau perthnasol wedi eu hyfforddi hefyd ym maes Cymorth Gwladwriaethol.
- Er na ddaeth Grant Thornton o hyd i unrhyw dwyll, fe wnaethant amlygu y gallem fod yn agored i berygl twyll. Am y rheswm hwn, rydym wedi cychwyn ymchwiliadau pellach mewn nifer o feysydd.

Mae'r gwaith hwn yn cael ei yrru yn ei flaen gan Dîm Prosiect, dan arweiniad ein Pennaeth Caffael, sy'n gweithio'n llawn amser ar y mater, gyda chymorth o bob rhan o'r busnes, a chan Grant Thornton. Rydym yn adrodd yn rheolaidd i'r Bwrdd ac i ARAC, ac mae'r gwaith yn cael ei oruchwylio gan is-grŵp gorchwyl a gorffen newydd y Bwrdd, dan gadeiryddiaeth Syr David Henshaw.

Ochr yn ochr â'r gwaith hwn, mae llawer o newidiadau eraill ar y gweill yn CNC a fydd yn gwella gwaith ein timau coedwigaeth. Ar 1 Ebrill, byddwn yn trosglwyddo i fodel gweithredu newydd ar gyfer y sefydliad cyfan. Bydd hyn yn creu timau cadarn, seiliedig ar le, gydag arweinyddiaeth glir ac a fydd yn canolbwyntio ar ymgysylltu â'r gymuned a chwsmeriaid. Byddant yn cael eu cefnogi gan dimau polisi canolog arbenigol a fydd yn gosod safonau ac yn sicrhau cysondeb. Mae dwy rôl newydd wedi eu creu a fydd yn effeithio'n uniongyrchol ar ein gwaith coedwigaeth: Pennaeth Masnachol a Phennaeth Stiwardiaeth Tir. Rydym wrthi'n recriwtio ar gyfer y ddwy swydd hyn.

Yn olaf, mae ein perthynas â'r diwydiant pren yn hynod bwysig inni ac rydym yn sylweddoli fod gennym waith i'w wneud i adennill ymddiriedaeth ac ailosod y berthynas hon. Gwnaethom ddechrau'r broses hon yn ein cyfarfod cyswllt cwsmeriaid pren blynyddol ar 28 Ionawr, ac yno rhoddais y newyddion diweddaraf iddynt ar y cynnydd mewn perthynas ag adolygiad Grant Thornton a'r newidiadau yr ydym yn eu gwneud. Byddaf yn falch o ateb eich cwestiynau ynghylch yr adroddiad hwn pan fyddwn yn cyflwyno tystiolaeth ar 11 Chwefror. Edrychaf ymlaen at eich gweld bryd hynny.

Yr eiddoch yn gywir,



Clare Pillman
Prif Weithredwr, Cyfoeth Naturiol Cymru
Chief Executive, Natural Resources Wales



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04 Chwefror 2019

Mr N Ramsay
Y Pwyllgor Cyfrifon Cyhoeddus

By email: SeneddPAC@Assembly.Wales

Annwyl Nick

Fel cadeirydd dros dro Cyfoeth Naturiol Cymru, hoffwn ychwanegu fy ystyriaeth a'm sicrwydd personol i chi wrth gymeradwyo adroddiad Grant Thornton i'ch pwyllgor.

Cychwynnais yn fy swydd ddechrau mis Tachwedd 2018 gan fynd ati'n gyflym i asesu'r heriau sy'n wynebu CNC. Yn amlwg, mae ystod eang o faterion i'w trafod ac rydym yn gweithio arnynt yn gyflym, ond mae coedwigaeth fasnachol a materion cysylltiedig ar frig ein rhestr o faterion sydd angen sylw. Rwyf yn rhoi'r flaenoriaeth uchaf i hyn ac rwyf wedi sefydlu grŵp goruchwyllo y Bwrdd i gynghori, arwain, craffu a herio'r prosiect sy'n rheoli ein cynllun gweithredu.

Pan ddechreuodd ein Prif Weithredwr ar ei swydd ac wynebu'r her amodi cyfrifon oedd yn deillio o'r materion gwerthu pren rwy'n credu ei bod wedi gwneud y penderfyniad cywir wrth ofyn i Grant Thornton gynnal adolygiad llawn.

Mae'r adroddiad hwn, sy'n amhleserus i'w ddarllen, yn rhoi sicrwydd i mi ein bod yn mynd at wraidd y materion hyn. Rwy'n credu erbyn hyn ein bod yn gweld y darlun cyfan ac y gallwn weithredu'n bendant arno a hynny'n gyflym, i sicrhau na fydd hyn byth yn digwydd eto yn CNC.

Mae'n hanfodol bwysig bod Bwrdd CNC yn gwbl fodlon fod yr holl faterion a amlygwyd yn yr adroddiad yn cael eu harchwilio yng nghyd-destun gweithrediadau'r sefydliad ehangach, ac nid coedwigaeth yn unig. Rydym hefyd yn rhoi blaenoriaeth uchel i hynny.

Mae ein cynllun gweithredu yn sicrhau bod newidiadau a gwelliannau sylweddol yn cael eu gwneud. Mae cyflawni newid ar raddfa o'r fath yn hanfodol wrth sicrhau na fydd hyn yn digwydd eto. Rydym yn unioni pethau, rydym ar y trywydd iawn i gyflawni'r camau a byddwn yn agored ynglŷn â'n cynnydd.

Rwyf wedi cadeirio nifer o sefydliadau mewn sefyllfaoedd heriol. Gydag arweinyddiaeth glir ar lefelau Bwrdd a Gweithredol, tîm o bobl sy'n fodlon llwyddo a chyda phenderfyniad diildio, rwy'n hyderus y gallwn roi'r diwygiadau ar waith yn gyflym er mwyn sicrhau llwyddiant CNC yn y dyfodol wrth wasanaethu pobl Cymru.

Rydym hefyd yn ailsefydlu ein perthynas â'r diwydiant coedwigaeth yng Nghymru ac rwy'n edrych tuag at yr holl bartneriaid hynny i gydweithio â ni i drawsnewid ein cyfres o gysylltiadau busnes.

Edrychaf ymlaen at eich cyfarfod ar 11 Chwefror ac i roi sicrwydd pellach i chi ar y materion sy'n cael eu codi yn yr adroddiad hwn a sut yr ydym yn mynd i'r afael â hwy.

Yn gywir

A handwritten signature in black ink, appearing to read 'David Henshaw', with a horizontal line underneath the name.

Syr David Henshaw
Cadeirydd Dros Dro, CNC

Yn rhinwedd paragraff(au) ii o Reol Sefydlog 17.42

Mae cyfyngiadau ar y ddogfen hon



Natural Resources Wales

Governance of timber sales

Tudalen y 24
o 24

February 2019

This report has been prepared exclusively for NRW. Our duty of care is solely to NRW.

Confidential – addressee only



CONFIDENTIAL – ADDRESSEE ONLY

Clare Pillman
Natural Resources Wales
Cambria House
29 Newport Road
Cardiff
CF24 0TP

31 February 2019

Dear Miss Pillman

Natural Resources Wales (NRW) – Governance of timber sales

We are pleased to provide our report following our review in connection with the governance of timber sales.

The scope of our review is to provide findings on the governance of timber sales to assist NRW in addressing concerns identified by the Wales Audit Office (WAO) and the Public Accounts Committee (PAC).

We are pleased to report that a number of individuals approached us directly following your email to staff encouraging them to do so. We received comments on a wide range of issues, frequently strongly expressed.

We identified many areas for improvement. These range from basic control environment processes to higher level areas such as automation, reporting and interaction with central functions. Our key findings are included within the executive summary, but we stress that for a full understanding it is necessary to read this in conjunction with the detail in sections 3 to 6. We thank you for your confirmation that NRW accepts our findings in full.

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Circulation of report and duty

This report is confidential and has been prepared exclusively for NRW. Our duty of care is solely to NRW. This report should not be used, reproduced or circulated to any other party in whole or in part, without our prior written consent.

You have confirmed that NRW has agreed the factual accuracy of this report.

Scope of work and limitations

This review considers the governance of timber sales. It is not a full review of the operation of the forestry function within NRW. In addition, the corporate governance arrangements within NRW are outside the scope of this review.

An important part of the review has been to gather information in meetings with a wide range of individuals within NRW. The information obtained in these meetings has been supplemented by a review of key documents and a number of timber sales contracts. We have also met with representatives of the Welsh Government and the WAO.

Chartered Accountants

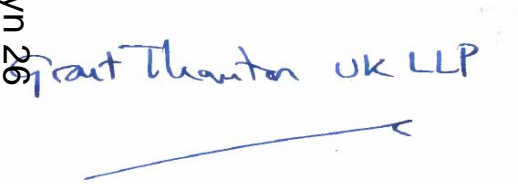
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We have not undertaken a full review and testing of systems, processes and individual contracts as such testing will form part of NRW's action plan in response to our findings.

This review of NRW does not constitute an audit in accordance with Auditing Standards.

If further information is produced and brought to our attention after signing of this report, we reserve the right to revise our opinions as appropriate. We have relied upon the documents and information provided to us as being accurate and genuine. To the extent that any statements or information we have relied upon are not established as accurate, it may be necessary to review our conclusions.

Yours sincerely



Grant Thornton UK LLP

Glossary and terminology

ARAC	Audit and Risk Assurance Committee of NRW
Business boards	Internal NRW decision making groups
Coupe	An area of forest where harvesting of wood is planned or has taken place
E-Sales	Electronic system of selling timber lots on pre-set dates to the open market
EWP	End working product (where the price is set by product category)
FSoD	Financial scheme of delegation
LTTC	Long-term contract
MyNRW	The main finance system
NRW	Natural Resources Wales
OD	NRW's Organisational Design change and transformation programme
PAC	Public Accounts Committee of the National Assembly for Wales
Roadside sales	Sale of timber, where the harvesting is managed by NRW and timber is presented at the forest road for uplift. This is sometimes referred to as direct production
SRP	Sales Reporting Package (The predecessor system to TMP)
Standing sales	Sale of standing timber, where the purchaser manages the harvesting and determines which product to cut and which markets to supply
SS+	Standing sales plus (sale of standing timber which is off-set by purchase of services such as replanting)
STA	Single tender action (meaning direct award)
TMP	Timber Management Package (the computer package used by the forestry function within NRW that replaced SRP)
UKWAS	The UK Woodland Assurance Standard
WAO	Wales Audit Office
WSO	Wales Silviculture Operations

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Section 1: Executive summary

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Executive summary

This executive summary sets out the key findings from our review. We have identified a wide range of issues, including serious failings. These need to be addressed by NRW as a matter of urgency.

We confirm that NRW has supported this review, including the Chief Executive's email to all staff encouraging them to participate. That encouragement was successful, with a number of individuals approaching us directly to provide information. These individuals raised serious concerns which assisted the identification of areas for review. This has added to the effectiveness of this review.

We have also noted NRW's commitment to address matters raised in this report and other reviews through an action plan. We recommend that the progress of these actions is monitored and that there is a regular review of progress that is subject to a high level of scrutiny at board level.

We note that while progress has been made in addressing issues raised in previous internal and external reviews, not all matters have been addressed, and some are therefore repeated in this report. This lack of responsiveness should not be repeated.

Our key findings below should be read in conjunction with sections 3 to 6, which set out details to support our findings, our recommendations and NRW's management responses to our recommendations.

Contract governance (section 3)

The overall contract governance arrangements were found to be weak. We identified a wide range of issues relating to contract governance, in particular:

- out of date governance documentation

- poor contract monitoring including a lack of some basic processes. A number of contracts were found to have gone substantially over-volume without challenge or contract addendums. It was found that there was no system in place to measure performance on a contract by contract basis
- lack of (or lack of evidence of) oversight and authorisation
- insufficient documentation on contract files to demonstrate an audit trail of the considerations taken into account regarding contract letting decisions
- offering sales using standing sales plus (SS+) without adequate consideration of the implications of that offering
- lack of progress to address issues with the functionality of NRW's timber management package (TMP) reporting system
- potential value for money issues on a long term contract (LTC) including pricing, a profit share arrangement and the sale of high volumes of chip

As part of our work, we selected 20 contracts for review. This was not a random sample as we weighted our selection towards contracts where data showed delivery in excess of contracted volumes. We noted a high error rate in our contract review.

Financial reporting (section 4)

There has been insufficient financial oversight. NRW's financial reporting needs to be improved and it should undertake a review of its budgeting and timber profit and loss account processes. In addition, we found there has not been effective monitoring of actual income and profit on a contract by contract, coupe by coupe or an alternative granular basis.

Executive summary (continued)

Organisational governance (section 5)

Organisational governance has not been robust. We note:

- Audit and Risk Assurance Committee (ARAC) - the level of ARAC's scrutiny of the timber sales governance over recent years was inadequate. This has been recognised by NRW and ARAC has committed to a more rigorous approach. The effectiveness of this increased scrutiny should be subject to regular review

Internal audit – there has been a lack of internal audit coverage. In addition, inadequacies in the risk register and the lack of effective engagement between NRW's forestry function and internal audit has meant that the risk assessment process has not operated effectively

Other organisational aspects (section 6)

Our review also noted:

- inadequate central function interaction with NRW's forestry function
- people matters including cultural aspects from the joining together of three organisations, issues with the interaction between teams within NRW's forestry function, resource issues and failures in the operation of the performance review and people development processes
- concerns about the operation of formal and informal complaints processes

Fraud

Our numerous interviews did not identify specific fraud and it was not noted as a root cause for the events of recent years. We consider, however, that the nature and extent of the issues we have identified indicate that NRW has a heightened exposure to the risk of fraud. We have identified certain potential irregularities, and NRW has confirmed to us that these will be fully investigated.

Root causes

We have been asked by NRW to consider the root causes of the issues raised in this report.

We have noted a wide range of contributing factors:

- **Lack of a single organisational culture:** NRW is a combination of three separate organisations, which had diverse activities and different cultures and ways of working. In such circumstances, there are considerable challenges to the creation of a single organisational culture and NRW has not yet achieved this
- **Lack of responsiveness:** There was insufficient urgency and a lack of accountability attached to dealing with serious issues, including aspects of this review. We note that the new Chief Executive has taken action to address this cultural failing
- **Industry factors:** NRW is a major source of timber to the Welsh timber market and has a role in supporting the market. This market is dominated by a small number of large firms. The forestry activity itself is complex. In addressing the weaknesses identified in this report, NRW will need to ensure that it is mindful of these other factors
- **Organisational governance:** Organisational governance was not robust and there has been a lack of effective interaction between NRW's forestry function and its central functions
- **People factors:** There are a wide range of people factors including the impact of re-organisations, the loss of experienced staff, the level of resource and weaknesses in people development processes. The loss of a particular management role in 2017 was noted as key factor in the deterioration of the working relationship between NRW's forestry teams

Section 2: Background

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Overview and background to our report

NRW

NRW was established on 1 April 2013 to replace three bodies: Countryside Council for Wales, Environment Agency Wales and Forestry Commission Wales.

NRW manages the Welsh Government Woodland Estate on behalf of the Welsh Government. NRW's approach to the harvesting and marketing of timber is set out in a five year Timber Marketing Plan, which is published on its website. The present plan covers the years 2017 to 2022.

NRW states its timber marketing objectives as being to achieve the best value from the sale of timber by offering it for sale in a fair, open and transparent way that allows as many customers to compete for it as possible.

NRW also provides information to the market of its volumes. This is important as it is the largest source of timber to the market in Wales. It states that the maximum level of timber offered for sale each year will remain at 850,000 cubic metres.

Qualified accounts

The accounts of NRW were qualified by the Auditor General for FY2015/16, FY2016/17 and FY2017/18. The qualifications for FY2015/16 and FY2016/17 arose from the award of eight inter-related timber sales contracts. The eight contracts were LTCs let to a sawmill operator in May 2014. The Auditor General found that:

- these contracts were not referred to Welsh Government as required by its framework of authority
- the decision making process leading to the award of the contracts was neither robust nor transparent
- insufficient documentation was available to demonstrate the considerations taken into account when the decision to enter the contracts was made; and
- it is unclear whether NRW had complied with state aid rules when it entered into the contracts

These eight contracts were terminated on 31 March 2017 and 59 timber sales contracts were let by NRW in order to manage the exit from the terminated contracts. The qualification for 2017/18 related to these 59 sales contracts.

The qualification of the accounts has resulted in scrutiny by the PAC, with reports being issued in June 2017 and November 2018.

The Auditor General issued a Supplementary Memorandum to the PAC on the 2017/18 accounts in July 2018. The Auditor General noted a:

- failure to demonstrate good reason for departing from NRW policy
- failure to demonstrate that only relevant considerations were taken into account when determining contract volumes
- failure to refer novel, contentious and/or repercussive activities and proposals to the Welsh Government
- failure to comply with NRW's scheme of delegation
- failure to demonstrate compliance with the requirements of NRW's establishment order and state aid rules when setting contract prices

The output of the Auditor General and the PAC provide a detailed background, which we do not repeat in this report.

Our review

You commissioned us to undertake a review to assist you to take action to address issues identified by the Auditor General and the PAC.

Our work was not intended to repeat the work already undertaken by the Auditor General. As part of our work we have considered the output issued by the Auditor General and have held discussions with the WAO.

Overview and background to our report (continued)

Our findings

Our findings are summarised in section 1 and set out in more detail in the following sections:

- Section 3: Contract governance
- Section 4: Financial reporting
- Section 5: Organisational governance
- Section 6: Other organisational aspects

Sections 3 to 6 also set out our recommendations and NRW's responses to those recommendations.

Section 3: Detailed findings – Contract governance

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Contract governance

This section is based on information obtained from:

- meetings with a wide range of staff within NRW
- review of key documentation
- review of a sample of 20 contracts. This sample was not selected at random. We selected it based on our review of a listing of all FY2017/18 and FY2018/19 contracts at the date of our testing with a particular focus on contracts showing excess volumes. We were unable to complete our review of all contracts sampled due to a time delay between us raising queries and receiving relevant information back from NRW. At the time our work ceased, NRW confirmed issues with 11 of the 20 contracts which is a high error rate. Our expectation is that we would have identified further similar issues had we completed our review. We concluded that there is a need for wider testing which NRW have agreed to perform. It has also agreed to follow up on our remaining queries from our sample

Area	Findings	Recommendations	NRW responses
Policies	<p>While there are some recent documents, the governance documentation is not up to date and is not comprehensive. Some documents refer to pre-NRW circumstances and many documents have not been updated in light of the WAO findings or changes in circumstances within NRW, including significant changes in systems and roles and responsibilities of staff. Taking the timber sales contract guidance as an example which is dated 2013, the document refers to the old Sales Reporting Package (SRP) system. It also lacks sufficient detail in relation to 'business-critical areas' such as contract extensions, contract monitoring, contract variations and countering the risk of fraud.</p> <p>Guidance lacks clarity in a number of areas including when a contract starts late, when a contractor does not take all timber off site, importance of an audit trail and the contents of a contract file. The guidance also lacks reference to SS+.</p>	<p>Governance documentation should be updated to reflect and include:</p> <ul style="list-style-type: none"> • present circumstances • clear responsibility for ensuring that the control system is operating effectively • clear roles and responsibilities • detailed guidance of business-critical areas such as contract extensions, contract monitoring, contract variations, countering the risk of fraud and maintaining an audit trail • clear protocols for dealing with contract issues such as late commencement, quality issues, handling complaints, reporting fraud and liaising with central functions <p>A process should be adopted whereby documents are updated on a pre-defined regular basis and when there are substantial changes such as re-organisation of roles and changes in the computer systems.</p>	<p>A comprehensive timber sales governance standards document (version one) has now been written. It has been published internally and we are currently training staff in these new procedures, before finalising them by the end of March. This document includes areas noted in the recommendation.</p> <p>This documentation will be reviewed as a minimum annually by the Commercial Governance Advisor who will own the document and maintain the change log. This new role has been created to support better connections across the commercial teams. Within the first three months of implementation, internal audit and the Project Manager of the Timber Sales Governance Project will actively ensure that the standards mandated are being adhered to and will escalate compliance issues to the Head of Commercial Operations.</p> <p>A project to establish consistent contract management and monitoring processes and guidance across all commercial activity within NRW was established in late 2018. We are currently scoping an automated contract management system with a view of implementing this during FY2019/20.</p>

Contract governance (continued)

Tudalen y pecyn 37

Area	Findings	Recommendations	NRW responses
Contract terms	<p>Concerns have been raised about whether NRW's contract terms are sufficient to allow NRW to robustly challenge contractor performance. It was also noted that issues with NRW's own performance against commitments, including late delivery of work, make it more difficult to address contractor performance.</p> <p>SS+ contracts are a sales contract with a schedule of future work to be carried out by the customer over a number of following years. We received concerns that the schedules of additional work for SS+ contracts are inadequate for ensuring quality work is carried out.</p> <p>We note that external legal advice was obtained in 2016 which highlighted a number of contract wording changes, however, contracts were not updated for the advice received. We have not been able to determine why this legal advice was not followed. We are informed of another review of contract terms by a different external law firm that commenced in late 2017 and that, following this review NRW issued new terms in December 2018.</p>	<p>NRW should ensure its contract terms are appropriate including its terms relating to contractor performance and compliance.</p>	<p>An external legal review of a range of contracts, including SS+, was undertaken in 2016 but was not implemented. There will be no further award of SS+ contracts in their current format and a review is being undertaken to ensure the key business deliverables are able to be met by a future contract mechanism while ensuring good governance and compliance.</p> <p>A further review of terms and conditions by external legal advisors was completed in September 2018 and implemented as from 19 December 2018. These terms and conditions will be further reviewed to incorporate findings from this review to include robust contract management clauses. The terms and conditions drafted in 2016 will also be considered under this review.</p>

Contract governance (continued)

Area	Findings	Recommendations	NRW responses
<p>TMP</p> <p>Tudalen y pecyn 38</p>	<p>The software package that supports this area of work, TMP, was introduced in April 2017.</p> <p>We received many comments that the introduction of the TMP system was not well planned or implemented. TMP has been described as not being fit for purpose and lacking in reporting functions. It was also noted that some processes are dictated by the functionality of TMP, rather than by what would make operational sense.</p> <p>While there were references to an improvement project to address areas that were more easy to rectify, this was not progressed on a timely basis.</p>	<p>NRW should ensure its improvement plans to TMP are on a timely basis. It should implement alternative paper based processes in the meantime to address known system weaknesses.</p>	<p>A project is currently operating to scope scale, build and implement a range of improvements to TMP. This work will be completed in phases by the end of October 2019. Further improvements plans will be made as appropriate.</p> <p>In the interim, the timber sales governance project team have mapped out the process to ensure that any gaps in the current system are bridged with auditable manual processes ahead of any medium to long term system changes being developed. These manual compliance improvements have been introduced as of 31 January 2019 covering:</p> <ul style="list-style-type: none"> secondary authorisations additional reporting
<p>E-sales</p>	<p>NRW has an electronic sales (e-sales) method for selling timber on the open market. This is the principal method of sale and the percentage of sales through this method has increased as LTCs come to an end.</p> <p>Details are provided of the coupes for sale in advance of the e-sales event to the market. It is a potential way of ensuring sales are achieved at a market price.</p> <p>NRW has introduced a control whereby the total value of sales awards across all sales contracts let at each sales date is considered. If the total value of a particular customer, over an e-sales event, exceeds a pre-set threshold, sign-off is required. We consider this to be a sensible control.</p> <p>A concern has been raised that some e-sales contracts were let prior to this sign-off process being completed.</p>	<p>The internal audit function should undertake testing of the governance of the e-sales process.</p> <p>NRW should consider the award criteria and weighting to apply to price and quality.</p>	<p>Internal audit will review the e-sales process as part of their audit plan to be undertaken in April 2019. Internal audit has contracted additional resource to ensure they undertake an intensive review programme as part of this action plan.</p> <p>As of 1 April 2019 all bidders will be required to complete a prequalification process to be able to register on the e-sales system. All timber sales contracts from 1 April 2019 will also be awarded based on a weighted quality element as well as a weighted price element.</p>

Contract governance (continued)

Area	Findings	Recommendations	NRW responses
Use of LTCs	We received a range of views on the appropriateness of the use of LTCs, rather than solely relying on e-sales. It was noted that there is a reluctance to consider them given the external criticism of previous LTCs.	NRW should ensure that it gives appropriate consideration to alternative sales arrangements to e-sales, including LTCs. The outcome of this consideration should be documented.	We will consider a range of letting mechanisms for timber sales contracts. By the end of April 2019 an appropriate range of mechanisms will be approved and documented. The methodology for using them will be mandated within the timber sales governance standards. These will be reviewed annually as a minimum.
Direct award	<p>In response to the PAC action plan, NRW implemented a register of Single Tender Action (STA) forms for contracts over £5,000 which are not subject to competition. The first entry in this register was in June 2018. Those over £100,000 are reported to ARAC on a quarterly basis. These limits are set at a sensible level.</p> <p>We have been provided with an STA register which sets out five contracts and we have reviewed the forms completed for each of these. The process and related guidance appears reasonable, though we consider there should be a formal sign-off consistent with the process within procurement. We have been advised that all other direct award contracts are under £5,000.</p> <p>We note that one of the STAs reviewed went over volume (roadside contract where there was 192 tonnes actual against a contract volume of 150 tonnes). NRW has confirmed it was not necessary to complete another STA form and also that a volume addendum was required and was not prepared.</p> <p>NRW confirmed that there was one direct award contract over £100,000 and that this award was approved in October 2018 and reported to ARAC in December 2018.</p>	<p>NRW should review the sign-off process for STAs and seek to harmonise the process with the approach adopted in the procurement function.</p> <p>Internal audit should undertake a review of the operation of the new STA system.</p>	<p>The STA process for sales has been reviewed and rewritten and it is now in line with the approach adopted within the procurement process.</p> <p>Internal audit will review the operation of the new STA process as part of their audit plan to be undertaken in FY2019/20.</p>

Tudalen y pecyn 39

Contract governance (continued)

Tudalen y pecyn 40

Area	Findings	Recommendations	NRW responses
SS+	<p>SS+ was introduced in FY2017/18 and for FY2018/19 it represents around one sixth of sales volumes. SS+ income is recorded as the net of the sales price and an agreed reduction in lieu of future work such as replanting. This future work may be undertaken over a period of many years, potentially for up to five years. As such, NRW reduces its sales figures and also its costs. There is also a mismatch in the timing of the income (present sale) and cost (service of a number of years).</p> <p>NRW has been unable to provide evidence that appropriate consideration was given to the impact of SS+ on contract terms and financial reporting. NRW was also not able to provide documentation to evidence that SS+ contracts represent best value for money.</p> <p>There has not been effective monitoring of the level of future services due to NRW. We are also unsure of the extent to which NRW is exposed by paying for a service prior to its performance by agreement to accept reduced sales revenues. Concerns have been raised about the robustness of NRW's previous contract terms and contract monitoring regarding contractor performance of work in a complaint way to the required quality.</p> <p>The financial information on the SS+ offset was not known by the finance function as the only information recorded on MyNRW is the net of off-set sales figures.</p>	<p>NRW should undertake a review of the SS+ arrangement in light of the findings.</p> <p>This should at a minimum consider:</p> <ul style="list-style-type: none"> the impact on the financial statements how services due are to be monitored in future years and arrangements in place to address non-performance the value for money of this arrangement by reference to the alternative of having separate timber sales and purchases of services 	<p>We accept that the estimated value of services to be undertaken by SS+ customers and associated risks should have been more clearly considered in commercial assessment of contracts when first initiated in April 2017. The decision was taken in December 2018 to stop the award of any SS+ contracts in their previous form. When considering future models we will undertake a thorough assessment of value for money with closer involvement of, and review by, the Head of Finance.</p> <p>We will develop a revised accounting treatment for current ongoing SS+ contracts to split out future liabilities from income. We will look to agree this with WAO before the 2018/19 year-end.</p>

Contract governance (continued)

Tudalen y pecyn 41

Area	Findings	Recommendations	NRW responses
Contract monitoring	<p>Summary</p> <p>Contract monitoring arrangements were found to be inadequate.</p> <p>Monitoring of contracts relies on positive intervention from those responsible, with limited oversight from management. In particular, we noted that there were no automated alerts from TMP and no effective alternative system in place. As a consequence, some contracts have gone significantly over the contracted volume (in some cases over 200% of the contracted volume). Until the recent manual control introduction, we noted authorisation codes could continue to be issued for the collection of timber when contracts were significantly over volume.</p> <p>Our contract testing found a lack of controls in place to ensure that Financial Scheme of Delegation (FSoD) limits are adhered to.</p> <p>No reports are created (or distributed) in relation to contract progress. Furthermore, there is a lack of clarity amongst the sales and harvesting teams regarding contract control and monitoring.</p> <p>Finally, there is no monitoring (or comparison to budget) of actual income received on a contract by contract (or coupe by coupe) basis.</p> <p>Further information</p> <p>A significant level of concern has been raised about the level of wood fuel and chip wood dispatched against a standing sales LTC. We were also informed that contracted volumes were exceeded on roadside contracts. Concerns were also raised about the level of monitoring that takes place on site and the robustness of the system for ensuring that contractors perform work in a compliant way to the required quality.</p>	<p>NRW should considerably strengthen its contract monitoring processes.</p> <p>The harvesting and sales teams should have a clear agreement about their individual roles in monitoring.</p> <p>NRW should ensure there are automated or manual systems in place that flag contracts that are approaching volume or time thresholds. There should be clear processes in place for dealing with contracts that are flagged by this process.</p> <p>Monitoring reports should be produced and discussed on a regular basis.</p>	<p>We recognised that improving contract monitoring was an immediate priority when this area was highlighted. Manual but robust monitoring systems have been implemented as of 1 December 2018. These reports are issued to contract managers on a monthly basis informing them of dispatched volumes and end dates. The standards document outlines the necessary actions for contract managers to undertake as a result of these reports, to ensure that contracts are compliantly managed.</p> <p>In the medium term, TMP will incorporate automated processes to prevent the uplift of product on contracts that are out of date or over volume thresholds and will provide information to ensure more effective contract monitoring. This work will be completed by the end of October 2019. There will be phased improvements before this date.</p> <p>The timber sales governance standards document clearly lays out the roles and responsibilities between various teams with particular regard to the provision of reports and the management of the resulting information. It also reinforces the need for FSoD limits to be adhered to and has mandated manual checks to confirm this is being done.</p> <p>The reason for the increased chip wood levels is in part due to a high proportion of <i>Phytophthora Ramorum</i> coupes that were incorporated under the LTC in order to assist solving the issue at pace.</p> <p>Our response to improving our granular reporting is included within the NRW response to financial reporting.</p>

Contract governance (continued)

Area	Findings	Recommendations	NRW responses
Contract monitoring (continued)	<p>Our contract testing (sample of 20 contracts) identified the following:</p> <ul style="list-style-type: none"> An acceptance of a failing in regard to a contract where we queried whether operations begun before the signing of the contract. NRW commented that “It is probable that the site was operational before the contract was signed. There is no record of the extent of any operations, so it is unclear as to whether it was harvesting activity that had begun”. This is not in line with the timber sales guidance which stipulates that early contract commencement conditions have to be recorded in the contract file There was no automated system in place to flag contracts which are going over volume or contract period. Instead this relies on manual intervention Subsequent to the contracts ending, there is no individual reporting of a contract’s actual outcome against expectations. Therefore there was no reporting of the performance of a contract. If this were done it could potentially lead to improvements in the mensuration process with more meaningful information available to help value coupes based on previous performance of similar coupes 		<p>Manual methods of monitoring and managing the product outturn to ensure transparency on volume have been developed and are in use.</p> <p>All future decisions on contract activity and change will be recorded as mandated in the timber sales governance standards.</p> <p>Poor performance will be addressed by the contractor scoring process which will be introduced from April 2019. Organisation Design (OD) is expected to significantly improve communication by moving all operational personnel into the same teams from 1 April 2019.</p>

Tudalen y pecyn 42

Contract governance (continued)

Tudalen y pecyn 43

Area	Findings	Recommendations	NRW responses
Contract addendums	<p>Summary</p> <p>Our contract sample testing provided a number of examples where staff have concluded contract addendums should have been in place but were not. Of particular note was that there were a number of contracts where contract addendums for volume overruns were not raised.</p> <p>We obtained a listing of all FY2017/18 and FY2018/19 contracts at the date of our testing, of which there were 842. This showed a significant number of timber volumes greater than the contracted volumes for example 67 had over 200% volume dispatched. We note that this finding relies on the accuracy of the data in the spreadsheet and that the individual contracts need to be reviewed to confirm whether there was a failure to issue a contract volume addendum.</p> <p>Our review of individual contracts did identify failures to issue contract volume addendums relating to both standing and roadside sales. Examples of standing sales contracts are set out in the further information section below. Roadside sales contracts includes the contract in the direct award section above.</p> <p>Further information</p> <p>Our sample of 20 contracts identified a number of contracts which had exceeded the original estimated quantity. Seven of these contracts had exceeded the original estimated quantity by 141% or greater. NRW was not able to provide volume addendum contracts for any of these and has accepted that for at least three of them no addendum was raised when there should have been. We note there may be further instances of failure to issue addendums within our sample as we did not complete our testing given NRW's commitment to undertake a comprehensive review of contracts.</p>	<p>NRW should ensure that its staff are aware of the importance of contract addendums and that the requirements for contract addendums are complied with.</p>	<p>In the short term the harvesting and marketing business support team are sending out monthly reports to contract managers to inform about volume dispatched to ensure that decisions can be taken prior to the volume or end date being exceeded. If the contract hasn't had relevant intervention and gets to end and volume limits, then the contract will be stopped while action is taken.</p> <p>The requirement to issue appropriate contract documentation when addendums are necessary was communicated to staff in December 2018. This has been reinforced by the interim Head of Commercial Operations.</p> <p>Further to this, the timber sales governance standards provides guidance on acceptable levels of volume on a contract and mandates the process for issuing addendums when appropriate and provides staff with the relevant templates and guidance.</p> <p>Internal audit have started their review of FY2018/19 timber sales contracts with any recommendations falling into the remit of the timber sales governance project.</p>

Contract governance (continued)

Tudalen y pecyn 44

Area	Findings	Recommendations	NRW responses
Evidencing decisions	<p>We have noted lack of documentation in our consideration of SS+ above.</p> <p>There is insufficient documentation on contract files to demonstrate an audit trail of the considerations taken into account regarding contract letting decisions, in particular in relation to prices and product lines.</p> <p>In response to our queries on the contracts we reviewed, NRW was able to provide some further evidence, though there remained an inadequate audit trail. We were also informed that further evidence would have been made available to us but that it had not proved possible to retrieve some documents that would evidence chains of decision making.</p> <p>For the majority of the contracts we selected, the contract files included cost sheets. We attempted to trace figures in these cost sheets to supporting evidence. This proved to be a time consuming exercise and we were unable to gain assurance over the source of the contract pricing shown in the cost sheet. NRW have committed to undertake further work in this area.</p>	<p>NRW should ensure there is sufficient consideration evidenced for any new arrangements including the impact on policy procedures, contractual terms, gaining appropriate sign-off from central functions and value for money.</p> <p>NRW should strengthen protocols for maintaining evidence on file including:</p> <ul style="list-style-type: none"> • authorisation • contract award, pricing and costing decisions • quantity and time addendums • contract issues such as poor performance of a contractor/customer • value for money • the reason where the award is not to the highest bidder <p>NRW should set out the time period that information should be retained and identify whether the retention of certain items is a legal or other requirement.</p>	<p>The timber sales governance standards mandate that all staff should evidence the decision-making process with regard to new arrangements including contractual terms and obtain the correct approvals as per the FSoD. In addition document retention rules have been defined and mandated as part of this guidance document.</p> <p>It mandates that staff must include within the contract file to be stored to the Document Management System evidence in all the areas noted in the recommendation.</p> <p>As of December 2018 we have put a stop on all contracts where permitted volume or end date is to be exceeded until a decision is taken and recorded on how to proceed.</p> <p>We have put in place robust authorisation and documented procedures for approving cost sheets in line with current FSoD limits.</p> <p>The contract files are being monitored by the timber sales governance project team for compliance to ensure that the mandated guidance document is being adhered to until the appropriate approvals are built into the system.</p> <p>New guidance is also being drawn up for contract managers making the policy and procedures on contract management and particularly contract amendments clear to include the requirement to evidence decision making. These requirements were communicated to staff in December 2018.</p>

Contract governance (continued)

Tudalen y pecyn 45

Area	Findings	Recommendations	NRW responses
Authorisation process	<p>Authorisation processes are not automated to ensure that they happen and that authorisation occurs at the right level. Further there is no effective alternative system in place.</p> <p>From our review of a sample of contracts there is a lack of controls in place to ensure the FSoD limits are adhered to.</p> <p>Our contract testing noted the following:</p> <ul style="list-style-type: none"> a number of contracts lacked evidence of authorisation regarding pricing variations which were not escalated upstream for review and sign off. There were some instances where such variations were escalated upstream but we were not provided with a response to the variations. We consider it likely that there are further emails that may evidence authorisation, however it is apparent that the authorisation process has not been robust a lack of authorisation with regards to a number of costing sheets. These costing sheets were undated and did not include any sign-off boxes to allow for the recording of approval. NRW did provide some email trail in relation to some of our queries and requests in this area but these were not readily available on file 	Automated authorisation processes, or effective alternative arrangements should be in place.	<p>The new timber sales governance standards set out a robust expectation of the accountability around authorisations being undertaken at the correct levels and the processes required to make sure they are adhered to and documented. This document has gone live in February 2019 after staff training. Compliance in the area of sales authorisations will be monitored by the Timber Sales Governance Project Manager and the new interim Head of Commercial Operations (and the Head of Commercial when appointed) in the short term and will move into the internal audit plan for FY2019/20 and following years.</p> <p>In the medium term, we have scoped out an improved version of TMP in which we are looking to incorporate automated authorisation levels. This work will be completed by the end of October 2019. There will be phased improvements before this date.</p> <p>In the short term manual compliance improvements specifically around authorisations have been introduced as of February 2019:</p> <ul style="list-style-type: none"> Clear segregation of duty Checks on authorisation levels Secondary authorisations – allocated on a risk-based approach and by reference to monetary amounts

Contract governance (continued)

Area	Findings	Recommendations	NRW responses
Tudalen y pecyn 46	<p>Ongoing long-term contract</p> <p>NRW inform us there are two ongoing LTCs. Our review focused on one of these and noted findings in respect of:</p> <ul style="list-style-type: none"> the pricing mechanism. This permits prices to be revised on an annual basis but prices were not revised until June 2018 a profit share arrangement which allows for the sharing of increased prices if a better alternative market is found for the product end working product (EWP) contracts. While there is an estimate of individual product volumes, this is not binding on the customer excess volumes being dispatched against the contracts. We note a large proportion of the excess volume relates to chip, a product which has a low sales value to NRW. This includes a contract with actual volume of chip of around 6,000 tonnes against an expected volume of 100 tonnes. 	<p>NRW should undertake a review of the governance and value for money of the two ongoing LTCs.</p>	<p>We have already taken the decision not to extend any remaining LTCs beyond their existing contractual end date. The two remaining contracts will finish in May and December 2019. Furthermore, NRW has decided not to market any timber via this approach in current market conditions.</p> <p>To ensure that governance and value for money is to a high standard for the remaining LTCs, internal audit have started a review of the ongoing long-term contracts as part of their review of FY2018/19 timber sales contracts with any recommendations falling into the remit of the timber sales governance project.</p> <p>All future LTCs will be let and managed robustly.</p>
	<p>Firewood framework</p> <p>Concerns have been raised about the award of the firewood framework. Concerns relate to the openness of the initial framework award and the admission of a new framework member after closure of the process.</p>	<p>NRW should review the governance of the award of the firewood framework.</p>	<p>Internal audit have started their review of the framework contract as part of their review of FY2018/19 timber sales contracts with any recommendations falling into the remit of the timber sales governance project.</p>

Section 4: Detailed findings – Financial reporting

Tudalen y pecyn 47

01. Executive summary
02. Background
03. Detailed findings – Contract governance
04. Detailed findings – Financial reporting
05. Detailed findings – Organisational governance
06. Detailed findings – Other organisational aspects



Financial reporting

From discussions with various members of staff and review of key documents we note the following findings in relation to financial reporting. Our findings should be considered in the context that a full review of the effectiveness of the financial reporting is outside the scope of this review:

Area	Findings	Recommendations	NRW responses
Tudalen y pecyn 48 Budget	<p>There is a budget setting process and also a process for periodic review of budget to actuals. There is scope to improve the effectiveness of this process.</p> <p>There is a quarterly review process of the timber budgets (with a more detailed review being carried at Q2). Additionally, each month the forecast is updated and the finance team will raise queries on performance against budget with the heads of the various teams. We are informed that progress is mainly by exception and/or risk. Variance reviews are undertaken by building up the detail from a cost centre level. The review by finance is at a high level looking for explanations for year to date actuals versus year to date budget. The review by finance is limited as it is at a high level.</p>	<p>NRW should review its budget process including the following areas:</p> <ul style="list-style-type: none"> the basis for the budgeted figures should be documented and subject to robust review NRW should periodically consider the effectiveness of the budget setting process including considering reasons for budget variances documenting the budget process 	<p>We will review our budgeting process to ensure that all key decisions made during the setting of budgets are fully explained and documented.</p> <p>The FY2019/20 budget went some way to introducing that new way of working with the development of the Land Management Service Plan. Budgets and business plans are signed off by the executive team and the board.</p> <p>In addition, we are reviewing and changing our business planning and budgeting processes as part of the new ways of work and the creation of business boards. A new process will be implemented during 2019 as part of our OD implementation.</p>

Financial reporting (continued)

Area	Findings	Recommendations	NRW responses
<p>Timber profit & loss account reporting</p> <p>Tudalen y pecyn 49</p>	<p>The high-level timber profit and loss account incorporates the headline income and costs from the relevant timber cost centres. The income and expenditure figures do not contain sufficient detail and there is no formal commentary.</p> <p>An automated system prepares profit and loss from MyNRW combining income (as received) and expenditure from the relevant cost centres. Budget holders report separately within cost centres (for example, sales, harvesting and silviculture). We note there are timing differences as civil and replanting costs are accounted for as incurred and not at the time when the sales income arises from these activities. As such, the expenditure reported does not directly correlate to the costs incurred to generate the reported income.</p>	<p>NRW should strengthen its reporting arrangements to ensure meaningful outputs in its overall reporting of income, costs and profits for timber. This should include more detailed reporting and a commentary.</p> <p>As part of this NRW should consider what financial information would be meaningful to the commercial team, finance, senior management and other recipients.</p>	<p>Business finance create and issue a high-level timber profit and loss account. A commentary has now been included (since December 2018). Finance work with NRW's forestry budget managers to monitor, manage and report on spend and income against budget. We will continue to develop our reporting to meet the requirements of the various internal customers. This will be in place in FY2019/20.</p>

Financial reporting (continued)

Area	Findings	Recommendations	NRW responses
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Tudalen y pecyn 50</p> <p>Lower level reporting</p>	<p>There is no effective monitoring of actual income or profit on a contract by contract, coupe by coupe or alternative granular basis.</p> <p>The forestry function within NRW has access to a reporting system called Power BI. We are advised that this has been developed over the past year using data from TMP. We understand that this system has recently started to be used to produce reports for the purposes of monitoring, forecasting and financial reporting.</p> <p>More comprehensive reporting may assist in a number of ways including but not limited to:</p> <ul style="list-style-type: none"> • providing meaningful information to inform reporting • provide information to seek improvements (commercial decisions, coupe measurements, cost management etc) • help identify potential irregularities 	<p>NRW should continue to develop TMP and Power BI to provide meaningful reporting on a more granular level. It should also ensure its financial information is subject to adequate scrutiny.</p> <p>Such reporting and scrutiny should be undertaken on a regular basis.</p>	<p>Power BI has been developed over this year using data from the TMP. Since Grant Thornton conducted their face to face review sessions this system is now being used to produce reports for the purposes of monitoring and financial reporting.</p> <p>We will develop financial performance reporting at a lower level and how finance works with the business to use this information to set and monitor the performance of the timber programme. This will be aligned with changes to TMP by October 2019 and any other phased improvements in the meantime. These reports will be used to provide management oversight of performance on a monthly basis.</p>

Section 5: Detailed findings – Organisational governance

Tudalen y pecyn 51

01. Executive summary
02. Background
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05. Detailed findings – Organisational governance
06. Detailed findings – Other organisational aspects



Organisational governance

From discussions with various members of staff and review of key documents we note the following findings in relation to organisational governance. We have considered finance separately in the previous section.

Area	Findings	Recommendations	NRW responses
<p>Board scrutiny through ARAC</p> <p>Tudalen y pecyn 52</p>	<p>Summary</p> <p>The level of ARAC's scrutiny of the timber sales governance over recent years was inadequate and it is important that going forward there is increased challenge and scrutiny of key issues facing NRW.</p> <p>Further information</p> <p>In its consideration of lessons learned, it was recognised that ARAC could have shown an increased level of scrutiny in the matters considered by the PAC. We agree with these findings with regards to ARAC's oversight of the governance changes needed in light of the WAO and PAC findings.</p> <p>As an example of the potential for ARAC's increased involvement, we understand that in late 2017 issues arose with The UK Woodland Assurance Standard (UKWAS). We note that the outcome of the 2017 review was known in November 2017. The UKWAS review identified major non-conformances and further issues may have had serious implications for NRW. The minutes of the December 2017 ARAC meeting do not mention this matter.</p>	<p>ARAC should ensure it is sufficiently robust in its challenge of NRW's progress of action plans and the actions of its management. Such discussions should be documented.</p>	<p>ARAC concluded from the findings of the lessons learned exercise, (as proposed by the former chair of ARAC and agreed and commissioned by the current ARAC Chair) that a greater level of scrutiny could have been exercised with regard to the timber sales contracts. Going forward ARAC's approach will be for rigorous documented evidence to underpin the assurances provided by the executive team with internal audit providing independent assurance to the committee.</p> <p>The board under the direction of the new interim Chair, including 6 new members, is providing robust oversight of the timber sales governance project and ensuring the findings from WAO, PAC and Grant Thornton are not repeated across the organisation. The board has set up a task and finish group, comprising the Chair, the Chief Executive, Chair of ARAC and two new board members who are providing detailed scrutiny over the project and the outputs and ensuring robust governance.</p>

Organisational governance (continued)

Tudalen y pecyn 53

Area	Findings	Recommendations	NRW responses
Role of internal audit	<p>Summary</p> <p>There has been a lack of internal audit coverage, which means that a key line of defence in the controls environment cannot operate effectively. In addition, inadequacies in the risk register and the level of engagement between NRW'S forestry function and internal audit has meant that the risk assessment process has not operated effectively.</p> <p>Further information</p> <p>The effectiveness of the internal audit function with regard to NRW's forestry function has been impacted by a number of factors notably:</p> <ul style="list-style-type: none"> • inadequate risk register to determine priority areas of work • lack of resource within the internal audit function • challenges for internal audit in its engagement with the previous management and the forestry function within NRW <p>In our opinion, the internal audit function (alongside its counter-fraud function) was not sufficiently engaged. The level of testing undertaken by internal audit was not sufficient and did not provide an effective line of defence within the control environment.</p> <p>Internal audit has undertaken reviews of long term timber sales contracts (May 2017), Single Tender Action (February 2018) and the Timber Management Package Audit (October 2017). While internal audit did undertake these reviews, the internal audit coverage and depth of review of NRW's forestry function was not adequate.</p> <p>We note that the internal audit report on long term timber sales contracts of May 2017 identified as a key finding dealing with under and over sales. It notes that there were child contracts where the quantities significantly exceeded the agreed volumes and that there was no formally agreed contract extensions or variations.</p>	<p>The internal audit function should be fully engaged, adopting a risk based approach. The scope of any future work should be set taking account of findings from this and other reviews. The internal audit plan should be approved by ARAC.</p>	<p>We are now better able to understand, express and evaluate our risk exposure. Management are championing the need to improve governance, internal controls and risk management of timber sales. Internal audit will engage with the timber sales team to increase coverage of these areas, using a risk based approach, under the direction of the board, ARAC and executive team. We will use the new organisational structure in the timber sales area to develop better engagement. Internal audit will focus assurance on the quality of risk management, governance and internal controls.</p> <p>We have also improved our follow up process to ensure that management actions are delivered effectively and on time.</p> <p>We have addressed resource issues and will continue to highlight any internal audit resourcing issues to ARAC who have an overall responsibility for this.</p> <p>We have reviewed and revised the annual audit plan for FY2018/19 to provide an increased focus on timber contract compliance and audit. In addition, we have added outstanding internal audit actions to the monthly performance information reported to directors to ensure improved scrutiny of delivery.</p>

Organisational governance (continued)

Area	Findings	Recommendations	NRW responses
<p>Role of internal audit (continued)</p> <p>Tudalen y pecyn 54</p>	<p>These issues were noted in our findings from our review of contracts including recent 2018 contracts. The business therefore did not put in an effective system to address the internal audit finding.</p> <p>We also consider that a more in-depth review and report on LTCs would have been appropriate given the level of external WAO and PAC scrutiny apparent at the time of the internal audit review.</p> <p>We also note that while there was an internal audit report of TMP completed in October 2017, there appears to have been little progress on steps to address concerns in the following year. While we received many comments on the inadequacies of the TMP package implemented in April 2017, at the date of our review adequate plans to improve TMP were not in place. We note that the internal audit report stated with regard to the phase one implementation of the system in April 2017 that 'a lessons learned exercise had not been carried out and it's unlikely this will take place due to the lack of resource'. It also notes that there were several enhancements to be made but that 'there is no strict deadline for these to be implemented'.</p> <p>At the time of our review a process had been put in place for STAs, though its effectiveness will need to be assessed. We note that the internal audit report (February 2018) noted that while this area needed to 'be developed and embedded, as it was raised following the PAC enquiry into long-term timber contracts', it found that 'while some initial meetings took place to establish governance over the commercial enterprise initiatives, the progress was slow and was eventually halted due to issues with staff availability'.</p>		

Organisational governance (continued)

Area	Findings	Recommendations	NRW responses
<p>Role of internal audit (continued)</p>	<p>We note that the internal audit report took place more than six months after the PAC report had been issued. This appears to show a lack of prioritisation to address potential governance issues.</p> <p>We also have not received evidence of any follow-on reviews of the areas considered by internal audit to confirm that the appropriate actions had taken place.</p>		

Tudalen y pecyn 55

Section 6: Detailed findings – Other organisational aspects

Tudalen y pecyn 56

- 01. Executive summary
- 02. Background
- 03. Detailed findings – Contract governance
- 04. Detailed findings – Financial reporting
- 05. Detailed findings – Organisational governance
- 06. Detailed findings – Other organisational aspects



Other organisational aspects

From discussions with various members of staff and review of key documents we note the following findings in relation to other organisational aspects.

Area	Findings	Recommendations	NRW responses
Tudalen y pecyn 57 Responsiveness	<p>Summary</p> <p>We note that many findings in our review have been raised previously. NRW should ensure that actions plans are agreed and implemented on a timely basis.</p> <p>While overall there was a high level of engagement in this review, we noted that initially the responses to our contract queries were not given the priority we would have expected.</p> <p>Further information</p> <p>We noted in our review an overall lack of prioritisation in addressing areas of concern. As examples:</p> <ul style="list-style-type: none"> • governance documentation has not been updated • lack of action noted in making improvements to TMP • lack of action to address contract governance weaknesses, for example, we note that internal audit identified the failure to issue a contract addendum for volume over-run in its review of April 2017. Similar overruns were still happening at the time of our review • while we received a high level of engagement during our review, responses to our queries on contracts were not initially addressed promptly and, initially, at the right level of seniority 	<p>NRW should consider improving its responsiveness where a need for change has been identified.</p>	<p>While many of the issues raised have been addressed we accept that these should and could have been completed more quickly and we regret this lack of urgency. This review has raised wider issues in this area that had not previously been identified. We are addressing all of these issues through our timber sales governance project and are giving it the urgency and priority it needs.</p> <p>Examples of specific work that has already been completed:</p> <ul style="list-style-type: none"> • the NRW FSoD was updated and approved by the board in September 2018 to include revised sales approval limits and more clarity on items that may be classed as novel, contentious and repercussive. Training has been rolled out on this and we are seeing much greater awareness and interaction with staff • state aid training has been delivered by external legal partners in six sessions targeted at specific groups of staff • public law training is being delivered by our in house legal team to all NRW staff. By the end of February 2019 around 1,000 staff will have attended these sessions including Board members • an STA form and guidance for sales was introduced in April 2018 to ensure decisions in this area are documented and approved as part of the timber sales governance project. This STA form and guidance has now been reviewed and further improved

Other organisational aspects (continued)

Area	Findings	Recommendations	NRW responses
<p>Responsiveness (continued)</p> <p>Tudalen y pecyn 58</p>	<p>We note that NRW has progressed many of the actions in NRW's PAC response action plan. For example, it had introduced STA forms and it had taken some steps to improve the governance of contract letting. It had not sufficiently addressed some areas including processes around financial decisions and improved documentation and recording of decisions by the teams handling contract decisions.</p> <p>We also note that the WAO's management letter of August 2018 for the FY2017/18 accounts identified that five of the recommendations had been made in a previous management letter. These issues had therefore not been addressed on a timely basis.</p>		
<p>Interaction of the teams within the forestry function in NRW</p>	<p>In many of our interviews with NRW staff, it was stated that there were issues with the interaction of the sales, harvesting, civil engineering and silviculture teams.</p> <p>Of particular note were references to a deterioration in the relationship between the harvesting and sales teams following the departure of a senior staff member in 2017.</p> <p>Issues noted included a lack of clarity of roles, communication and operation of contract governance.</p>	<p>The roles and responsibilities of the teams should be clearly defined and NRW should ensure that issues between the teams are addressed on a timely basis.</p>	<p>The timber sales governance standards dated February 2019 clearly lays out the roles and responsibilities between various teams with particular regard to the provision of reports and the management of the resulting information.</p> <p>From 1 April 2019, as part of OD, all of the distinct NRW forestry function which have historically operated independently will be brought together by integrated place based teams. This will provide the opportunity for more structured and monitored communication across teams and more cross cutting work and communication within teams.</p>

Other organisational aspects (continued)

Area	Findings	Recommendations	NRW responses
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Tudalen y pecyn 59</p> <p>Interaction with legal</p>	<p>Summary</p> <p>There is no clear protocol for setting and varying contract terms and legal's role in the process is not prescribed. There was not a clear sign-off process for introducing new commercial arrangements such as SS+ to ensure that the contractual terms that should be applied are fully considered. We also note that legal was not involved in oversight of externally provided legal advice obtained on contract terms in 2016.</p> <p>Further information</p> <p>From our review we understand that there are no clear protocols for when legal advice should be obtained and how legal advice received should be acted upon, particularly where the advice received is not going to be followed. There does not appear to be a clear process between NRW's legal and forestry functions to define legal's involvement in areas such as contractual terms, health and safety, contractual disputes and state aid, or to encourage communication between NRW's forestry function and legal to actively manage business risk.</p> <p>There was a review of timber sales contract terms and conditions by an external law firm in 2016. The law firm suggested many wording changes. However, these were not processed and we have not received an explanation that justified the advice not being followed. We note that the legal function does not appear to have been in the process to ensure that advice received was considered and acted upon if appropriate.</p> <p>We note that there has been a second review of terms by a different external law firm which resulted in new terms and conditions being implemented in December 2018. Some of the changes suggested in the first review have not been included in the new terms.</p>	<p>NRW should ensure its legal function is appropriately involved where there are legal matters.</p> <p>The legal function should have a clearly defined role when external legal advice is obtained, which at a minimum includes knowledge of the advice sought and outcomes.</p>	<p>The work that legal services have delivered in public law and state aid training is having a positive impact, with increased interaction with the wider business.</p> <p>The legal services model in NRW is a hybrid one, with expert internal resource provided on many business areas that is supplemented with external provision in others such as commercial.</p> <p>We have included a section within the timber sales governance standards that mandates that all commissioning of legal service has to be done by the in house team. This will allow NRW's legal services to have an effective oversight of all legal advice.</p>

Other organisational aspects (continued)

Area	Findings	Recommendations	NRW responses
Interaction with legal (continued)	<p>The legal function does not appear to have been sufficiently involved in the setting of terms and conditions for sales contracts. We note:</p> <ul style="list-style-type: none"> a number of concerns were raised with us during our review about the sales contract terms and conditions, in particular with regard to contractor performance. This does not appear to have been addressed we are not aware that legal were involved in considering any impact on the contractual terms that were needed on the launch of SS+ 		
Interaction with procurement	<p>While we recognise that sales are outside the procurement process that was originally designed for purchases, we note that there are some services being provided under the sales arrangements, notably SS+.</p> <p>It is apparent from our review that there has been inadequate involvement of the procurement function in the development of the SS+ activity. It would be reasonable to expect that the arrangement of off-setting services against sales should have been fully agreed by procurement prior to any SS+ contracts being let.</p> <p>We note that the creation of the Head of Commercial post under OD will bring procurement and timber sales under the same accountability. This should improve the interaction of these functions.</p>	<p>NRW should ensure that its procurement function is appropriately involved.</p> <p>NRW should ensure that this includes the identification of the areas at most risk from procurement irregularity.</p>	<p>Head of Procurement has been taken off line and is currently project managing the timber sales governance project. This is providing the scope for appropriate procurement knowledge and standards to be shared with the timber sales and marketing team and wider forestry function within NRW with the aim of improving governance levels and consistency across this part of the organisation.</p>

Tudalen y pecyn 60

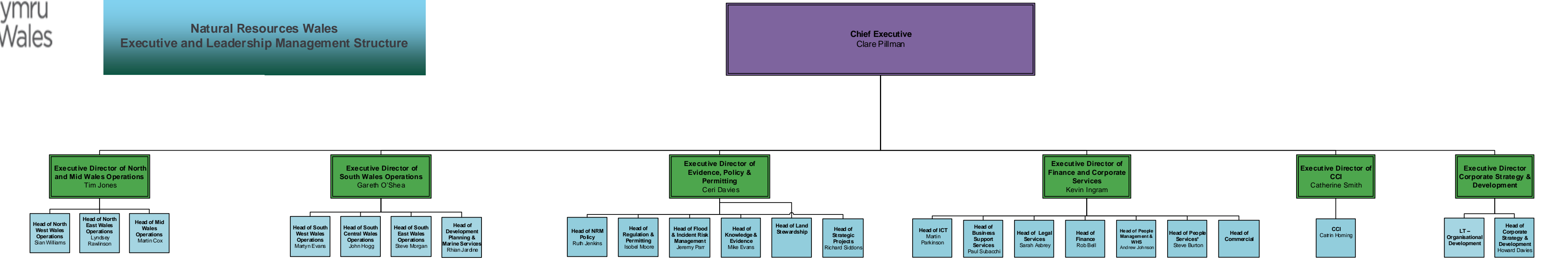
Other organisational aspects (continued)

Tudalen y pecyn 61

Area	Findings	Recommendations	NRW responses
People	<p>A number of people related areas were raised during our review. We do not opine on the extent to which these have merit. They relate to the following areas:</p> <ul style="list-style-type: none"> Lack of resource both within NRW's forestry function and centrally (including the time input allowed by non-executive directors) The impact and effectiveness of the OD programme Lack of (and lack of effective) performance reviews and personal development plans Dealing with non-compliance 	<p>NRW should ensure that it has an effective people development process in place for all staff and that resourcing requirements are discussed on a regular basis.</p>	<p>We are currently implementing a new organisation structure and ways of working that will reconfigure NRW to ensure that we are fit for the future. As part of the process we have consulted and listened to staff and have made changes to the design to invest additional resource in the forestry related parts of NRW and specifically to the timber sales and marketing team.</p> <p>Our annual personal development plan process should be completed by each member of staff and their line manager. This plan includes their objectives and development plans for the coming years and is reviewed bi-annually. Records of this are logged on MyNRW. Recorded completion rates for the commercial operations team was 64% in December 2018 and, after renewed focus by line management this has now increased to 90% (18 January 2019).</p> <p>We are also implementing a countersigning officer requirement on all plans to ensure greater organisation wide completion rates and improved quality.</p>
Whistleblowing process and handling of complaints	<p>We were informed in our review of a number of concerns raised internally within NRW which were not acted upon.</p> <p>We advised NRW of our concerns about the timeliness of its handling of a whistleblowing complaint.</p> <p>During our review a number of concerns have been raised with us directly.</p>	<p>NRW should ensure it has a robust complaints process that staff are encouraged to use.</p> <p>NRW should review the effectiveness of its whistleblowing policy and ensure that there is appropriate communication of the arrangements to its staff.</p>	<p>We already have robust polices and processes for whistleblowing in place. In complex cases, where there may be multiple sources, investigations can take time and we regret the time that a recent case has taken. The Head of Governance and Planning is carrying out a review on how we perform investigations into complaints and whistleblowing allegations including ensuring that we have sufficiently trained investigators who can complete this work at pace.</p> <p>The Grant Thornton review has successfully encouraged staff to come forward with concerns that they have. We need to build on this trust so that concerns, complaints and whistleblowing can happen in a safe environment.</p>



Natural Resources Wales Executive and Leadership Management Structure



Tudalen y pecyn 63