

Forestry and Land Scotland External Audit Plan

**Year ending
31 March 2024**

11th March 2024



Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of Forestry and Land Scotland for those charged with governance.

We are appointed by the Auditor General as the external auditors of Forestry and Land Scotland for the five-year period 2022/23 to 2026/27.

Respective responsibilities

The Code of Audit Practice (‘the Code’) summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the **Forestry and Land Scotland** are summarised in Appendix 1 of this Audit Plan. We draw your attention to this and the Code.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on Forestry and Land Scotland’s financial statements, which have been prepared by management with the oversight of those charged with governance (the Audit and Risk Committee). Our audit of the financial statements does not relieve management or the Audit and Risk Committee of your responsibilities.

It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. As part of our wider scope work, we will consider how you are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of Forestry and Land Scotland and is risk based.



Plan overview

The audit plan sets out our risk-based audit approach for Forestry and Land Scotland. This plan outlines our initial risk assessment and is reported to those charged with governance (Audit and Risk Committee) and will be shared with Audit Scotland.

01 Materiality

We have calculated our planning materiality using prior year total assets as per audited 2022/23 financial statements as our benchmark, resulting in the following:

- £101.020 million planning materiality which is based upon 1.7% of total assets. Performance materiality of £70.714 million is based on 70% of planning materiality.
- Trivial is set at £5.051 million which is based on 5% of materiality.
- A lower materiality will be used on:
 - £3.566 million for the revenue account, debtors, creditors and cash. £3.566 million is 1.7% of the gross expenditure based on the 2022/23 financial statements.
 - Performance materiality of £2.496 million is based on 70% of the lower materiality.
 - A lower materiality of £25,000 will be used on our audit of the Remuneration and Staff Report.

We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2023/24.

02 Financial statement audit

At planning, in accordance with the ISA's (UK) and Practice Note 10 (Revised 2020) 'The Audit of Public Sector Financial Statements' issued by the Public Audit Forum, we have identified the following significant financial statement audit risks:

- Management override of controls (ISA (UK) 240);
- Risk of fraud in income recognition – sales of timber income (occurrence) (ISA (UK) 240)
- Valuation of forest estate and land (valuation); and
- Valuation of biological assets (valuation);

We will communicate significant findings on these areas as well as other significant matters arising from the audit to you in our Annual Audit (ISA 260) Report.

03 Wider Scope and Best Value Audit

In accordance with the Code, our planning considers the wider scope and Best Value areas of audit.

We have identified the following wider scope significant risk and will conclude on it during the audit:

- **Financial Sustainability:** future financial plans for 2024/25 and beyond

We have not identified any other significant risks in relation to the other wider scope areas of audit or in Forestry and Land Scotland's arrangements for securing Best Value from our initial planning work.

We will continue to review your arrangements in these areas and report findings and conclusions as part of the Annual Audit Report.

Plan overview (continued)

04 Other audit matters

We summarise other audit matters for Audit and Risk Committee awareness. This includes:

- In accordance with the Code and planning guidance, we also complete and submit a number of deliverables during the year, including sharing intelligence with Audit Scotland, NFI auditor return and completing Audit Scotland data sets .
- Consideration of going concern in accordance with Practice Note 10.

05 Our Audit Fee

Audit fees were shared by Audit Scotland with Forestry and Land Scotland in January 2024. The audit fee set by Audit Scotland is £108,030. This fee includes:

- Auditor remuneration £119,230;
- Pooled costs £12,040 and
- Sectoral cap adjustment of -£23,240.

If an auditor's expert is engaged and any additional challenge is required above the expected norms due to the use of a new valuer, then we would seek to recover any additional cost through the audit fee. This would be subject to an agreement with Forestry and Land Scotland and Audit Scotland.

We assume all issues identified during 2022/23 are cleared and do not reoccur and that the accounts are received to the agreed timelines with audit queries resolved in a timely manner.

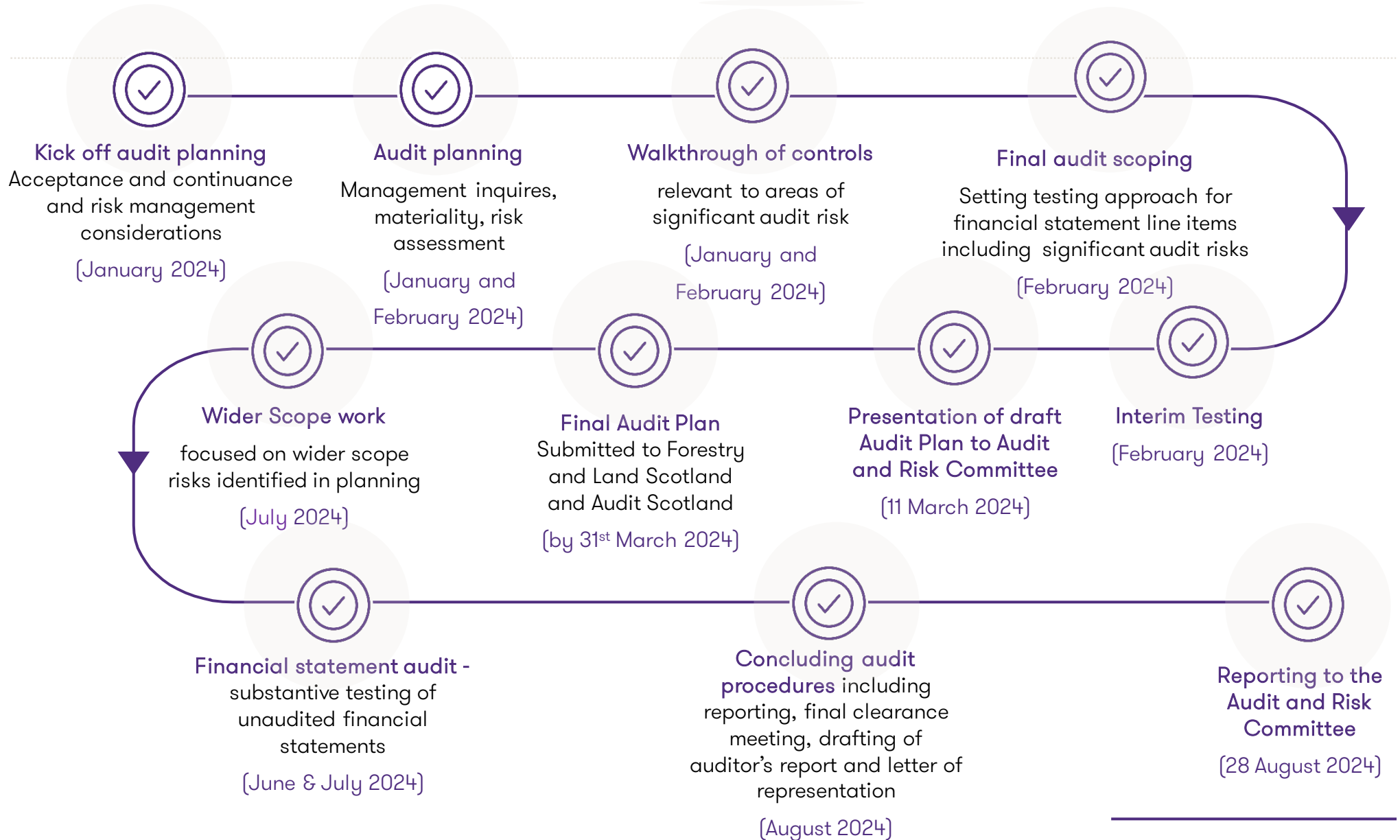
We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

06 Adding Value Through the Audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials . We use our LEAP audit methodology and data analytics to ensure delivery of a quality audit.

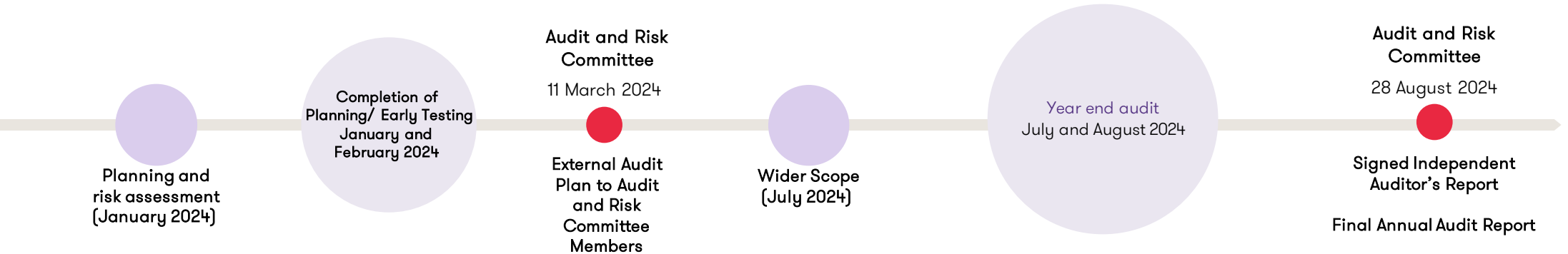
We aim to add value to Forestry and Land Scotland through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In doing so, we will help Forestry and Land Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

Audit approach



Audit timeline

We are required to submit audit plans to Audit Scotland by 31 March 2024, and it is anticipated that we will have drafted our Annual Audit Report and shared with management by 31 August 2024 in line with the Audit Scotland deadline. We have set out below our planned timescales for the Forestry and Land Scotland audit.



Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging our other audit engagements. Where additional resources are needed to complete the audit due to an audited body not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

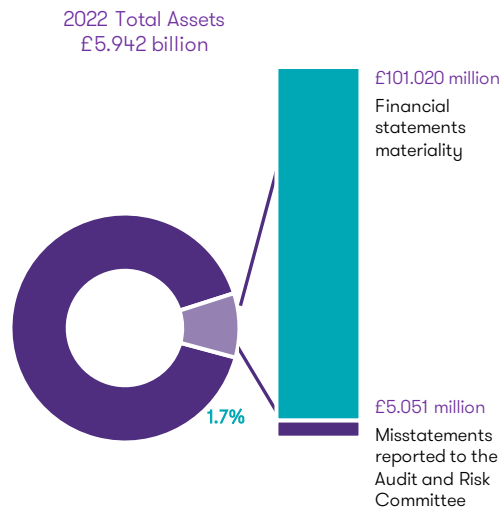
To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft accounts, comprising financial statements and related reports, of good quality, by the deadline you have agreed with us
- produce draft accounts that have cleared all issues identified during 2022/23 to ensure these do not reoccur
- produce draft accounts that are complete with all required adjustments included in the draft accounts
- prepare good quality working papers which support the figures included in the financial statements, in line with the working paper requirements schedule that we have shared with you, and make these available to us at the start of the year end audit visit
- provide all agreed data reports to us at the start of the audit, which are fully cleansed and reconciled to the figures in the financial statements
- ensure that all appropriate staff including management's valuers are available to us for queries over the planned period of the audit, or as otherwise agreed
- respond promptly and appropriately to all audit queries, within agreed timescales.

Receiving the draft accounts that are complete by the date agreed and working papers being available at the start of the audit are key. Our audit scheduling is such that we are staffed to complete the audit to the target deadlines and the impact of any client overrun impacts upon audit fees.

Materiality

Financial statement materiality is determined based on a proportion of total assets]. We have determined **planning materiality** to be £101.020 million (PY: £71.306 million), which equates to approximately 1.7% of total assets (PY: 1.2%) as per the 2022/23 audited financial statements.



Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 70% (PY: 60%) of planning materiality (£70.714 million) (PY: £41.784 million). This is based on our understanding of Forestry and Land Scotland and our overall risk assessment procedures.

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We apply a separate lower materiality level in the following areas:

- **Revenue account, debtors, creditors and cash:** we have set a lower materiality of £3.566 million (PY: £2.885 million) which is 1.7% (PY: 1.5%) of the gross expenditure based on the 2022/23 financial statements Performance materiality of £2.496 million (PY: £1.731 million) is based on 70% (PY: 60%) of the lower materiality.
- **Remuneration and Staff Report:** This is set at £25,000 (PY: £25,000) in order to ensure a high level of precision in this area of the financial statements.

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be £5.051 million being 5% of materiality..

We will update our materiality based on the unaudited 2023/24 financial statements when received in June 2024. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Significant audit risks (1)

Significant risks are defined by ISAs(UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Management Override of Controls (as required by Auditing Standards – ISA (UK) 240)

As set out in ISA (UK) 240 (Revised May 2021) ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements’ there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity’s internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions.

We will:

- Document our understanding of and evaluate the design effectiveness of management’s key controls over journals;
- Analyse your full journal listing for the year and use this to determine our criteria for selecting high risk journals;
- Test the high-risk journals we have identified;
- Gain an understanding of the critical judgements applied by management in the preparation of the financial statements and consider their reasonableness;
- Gain an understanding of the key accounting estimates made by management and carry out substantive testing on in scope estimates.
- Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK) 315)

Significant audit risks (2)

Risk of Fraud in Revenue (occurrence)

(As required within Auditing Standards- ISA (UK) 240)

As set out in ISA (UK) 240 (Revised May 2021), there is a presumed risk that revenue may be misstated due to improper recognition of revenue in all entities.

The risk of management manipulation and fraud is deemed to be low in relation to management and development of estate income, communities, recreation and tourism income, forest production and maintenance income, environment and heritage income, management services income and government grant income. We have therefore rebutted the risk of fraud in revenue in relation to these income streams.

However, Forestry and Land Scotland continues to face significant external pressure to deliver planned budgets, minimise any overspends and become self-sustainable. Forestry and Land Scotland's budget indicates that it will recognise sales of timber in 2023/24 which we deem to be material to the financial statements. The timber revenue figure is vital to Forestry and Land Scotland in order to meet agreed targets for 2023/24. We have therefore identified the risk of fraud in revenue in relation to this income stream.

In relation to sales of timber income, we will:

- Evaluate your accounting policy for recognition for appropriateness and compliance with the FREM;
- Perform substantive testing of transactions at and around year end to verify the accounting period the transactions relate to and confirm that transactions have been recognised in the correct accounting period;
- Review post year end receipts and verify the accounting period these transactions relate to and confirm they have been accounted for in the correct accounting period;
- Review the judgements and estimates made by management when recognising accrued and deferred income at year end within the financial statements and where appropriate challenge management accordingly.

Significant audit risks (3)

Risk of Fraud in Expenditure (As recommended in Practice Note 10)

As set out in practice note 10 (Revised 2020) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.

Forestry and Land Scotland's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as a result of fraud to occur in this area.

Having considered the risk factors and the nature of the expenditure streams at Forestry and Land Scotland, we have determined that the risk of fraud in expenditure can be rebutted as the organisation has a sufficient reserves balance to utilise against and opportunities to manipulate expenditure recognition are deemed to be limited.

Significant audit risks (4)

Valuation of forest estate and land (valuation)

This significant risk is one of the most significant assessed risks of material misstatement for the audit and expected to be a key audit matter.

In accordance with the HM Treasury Financial Reporting Manual (FRoM), subsequent to initial recognition, Forestry and Land Scotland is required to hold property, plant and equipment on a valuation basis. The valuation basis used will depend on the nature and use of the assets. Specialised land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for fair value. Non-specialised forest estate, land and buildings, such as offices, are held at fair value.

Forestry and Land Scotland appointed BNP Paribas Real Estate and Property Management UK Limited as external valuer under a contract commencing 1 May 2023 for a period of three years to undertake an annual valuation of the Forest Estate including non-forest land, houses and other buildings. Professional valuations of other land-related assets such as windfarms, hydro schemes, leased mineral sites and telecom masts are undertaken by Johnson Poole & Bloomer, Wardell Armstrong LLP and Galbraith.

As at 31 March 2023, Forestry and Land Scotland held property, plant and equipment (PPE) of £2.503 billion including forest estate and land of £2.028 billion. Given the significant value of the forest estate and land held by Forestry and Land Scotland and the level of complexity and judgement involved in the estimation process, there is an inherent risk of material misstatement in the year end valuation of some of these assets.

The valuation of forest estate and land is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. We will therefore focus our audit attention on assets that have large and unusual changes in valuations compared to last year and/or unusual approaches to their valuations, as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued.

Significant audit risks (5)

Valuation of forest estate and land (valuation) (continued)

Our testing will include:

- Evaluating management's processes and controls for the calculation of the valuation estimates, the instructions issued to their management experts and the scope of their work;
- Evaluating the competence, capabilities and objectivity of the valuation expert;
- Writing to the valuer to confirm the basis on which the valuations were carried out;
- Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- Evaluating the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantially tested to ensure the valuations are reasonable;
- Testing, a sample of other asset revaluations made during the year to ensure they have been input accurately into the body's asset register and associated entries in the financial statements;
- Evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value;
- Where we deem appropriate, make use of an audit expert to assess aspects of the valuation instructions issued by Forestry and Land Scotland to their valuers and final valuations;
- For any assets not formally revalued, evaluate the judgement made by management or others in the determination of the current value of these assets

Significant audit risks (6)

Valuation of biological assets (valuation)

This significant risk is one of the most significant assessed risks of material misstatement for the audit and expected to be a key audit matter.

In accordance with the HM Treasury Financial Reporting Manual (FRM), Timber growing on Forest Estate Land is categorised as Biological Asset Timber or Other Timber depending on the strategic objective the land is held to meet. Trees growing on land that is primarily held in support of the Scottish Government's objective of making a positive contribution to a thriving and sustainable Scottish economy are classed as Biological Assets under IAS 41. Other trees are classed as Other Timber and are out-with the scope of IAS 41. Biological Assets include standing trees and are measured at fair value less estimated point-of-sale costs. Holdings of plants and seed are also accounted for by Forestry and Land Scotland as Biological Assets under IAS 41. They are stated at fair value less estimated point of sale costs.

Forestry and Land Scotland appointed BNP Paribas Real Estate and Property Management UK Limited as external valuer under a contract commencing 1 May 2023 for a period of three years to undertake an annual valuation of the Forest Estate including biological assets which comprises of timber and plant and seed. As at 31 March 2023, Forestry and Land Scotland held biological assets of £3.303 billion. Given the significant value of the biological assets held by Forestry and Land Scotland and the level of complexity and judgement involved in the estimation process, there is an inherent risk of material misstatement in the year end valuation of these assets.

The valuation of biological assets is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. We will therefore focus our audit attention on assets that have large and unusual changes in valuations compared to last year and / or unusual approaches to their valuations, as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued.

Significant audit risks (7)

Valuation of biological assets (valuation) (continued)

Our testing will include:

- Evaluating management's processes and controls for the calculation of the valuation estimates, the instructions issued to their management experts and the scope of their work;
- Evaluating the competence, capabilities and objectivity of the valuation expert;
- Writing to the valuer to confirm the basis on which the valuations were carried out;
- Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- Evaluating the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantially tested to ensure the valuations are reasonable;
- Testing, a sample of other asset revaluations made during the year to ensure they have been input accurately into the body's asset register and associated entries in the financial statements;
- Evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value;
- Where we deem appropriate, make use of an audit expert to assess aspects of the valuation instructions issued by Forestry and Land Scotland to their valuers and final valuations;
- For any assets not formally revalued, evaluation the judgement made by management or others in the determination of the current value of these assets

We will communicate significant findings on these areas, as well as any other significant matters arising from the audit to you, in our Annual Report to those Charged with Governance and the Auditor General for Scotland in August 2024.

Other matters (1)

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2023/24 issued by Audit Scotland:

- We audit parts of your Remuneration and Staff Report in your Annual Report and check whether these sections have been properly prepared (opinion).
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in the FReM (opinion).
- We carry out work in order to express an opinion on whether in all material respects, expenditure was incurred and income applied in accordance with applicable enactments and guidance issued by the Scottish Ministers (opinion).
- We consider our other duties under the Code and planning guidance (2023/24), as and when required, including:
 - Supporting Audit Scotland in Section 22 reporting
 - Providing regular updates to Audit Scotland to share awareness of current issues
 - Notifying Audit Scotland of any cases of money laundering or fraud
 - Participating in the Audit Scotland Central Government Sector group
 - Review of Central Government Technical guidance prior to issue by Audit Scotland

- Contribute to the National Fraud Initiative Report including the completion of an auditors' return
- Provide assurance on the Whole of Government Accounts return.

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 was updated in 2020 to take account of revisions to ISAs (UK), including ISA (UK) 570 (Revised September 2019) on going concern.

PN 10 allows auditors to apply a 'continued provision of service approach' when auditing going concern in the public sector, where appropriate. Audit Scotland's also issued further guidance in a Going Concern publication in December 2020).

Within our wider scope work we will conclude on Forestry and Land Scotland arrangements to ensure financial sustainability.

Other matters (2)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be considered as part of our audit. However, the procedures will not be as extensive as the procedures adopted for the significant risks we have identified and highlighted in this Audit Plan.

Internal control environment

During our initial audit planning we will develop our understanding of your control environment (design) as it relates to the preparation of your financial statements. In particular we will:

- Consider key business processes and related controls
- Assess the design of key controls over all significant risks we have identified. This will include key controls over: sales of timber revenue, valuation of forest estate and land, valuation of biological assets, journal entries and material areas of management estimate and judgement.

Our focus is on design and implementation of controls only. We do not intend to assess or place any reliance on the operating effectiveness of your controls during our audit.

Financial reporting developments

During our audit, we will actively discuss emerging financial reporting developments with you. There are currently no key financial reporting developments for 2023/24 central government audits that will impact upon Forestry and Land Scotland.

Progress against prior year audit recommendation

As part of our final account's procedures, we will follow up on the implementation of prior year audit recommendations and report on progress against the recommendations in full within our Annual Audit Report.

Interim testing

As part of our interim procedures, we will complete testing on a number of areas for the first nine months of 2023/24 when efficient to do so, including:

- Payroll - starters, leavers and changes in circumstances
- Payroll substantive analytical procedure
- Sales of Timber Income – fixed and variable
- Management and Development of Estate Income
- Communities, Recreation and Tourism Income
- Estate Improvements Income
- Operating Expenditure
- Other Operating Expenditure
- Business Services Overheads
- Staff Allocation and Depreciation Journals

Wider scope risks identified in planning (1)

Our responsibilities under the Code extend beyond the audit of the financial statements. The Code sets out four audit areas that frame wider scope into identifiable areas. These four dimensions have been slightly amended in the 2021 Code as shown in the table below.

2021 Code of Audit Practice Audit Area	Definition
Financial Sustainability	Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.
Financial Management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
Vision, Leadership and Governance	Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.
Use of Resources to Improve Outcomes	Bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

The Code also requires that auditors assess and report on audited bodies' performance in meeting their Best Value and duties, as part of their annual audit. For central government bodies, we are required to consider the arrangements put in place by Accountable Officers to meet their Best Value obligations as part of our risk-based wider-scope audit work.

We consider each of these areas through our audit planning process and have set out below the identified areas of risk for our wider scope work. From our initial planning work, we have identified a significant risk in relation to Financial Sustainability. We have not identified risks in relation to Financial Management, Vision, Leadership and Governance or Use of Resources to Improve Outcomes from our initial planning work. We will continue to review your arrangements before we issue our Annual Audit Report.

Our findings and recommendation of wider scope work performed will be communicated through the Annual Audit Report.

Wider scope risks identified in planning (2)

Financial sustainability

Significant risk work area – future financial plans for 2024/25 and beyond

For 2023/24, the original budget, as set out within the Scottish Budget was £23.8 million. Due to Forestry and Land Scotland's ability to build up cash reserves and due to wider budget pressures across the public sector in Scotland in 2023/24, Forestry and Land Scotland's Annual Subsidy budget was reduced in year by £6.0 million. Given the nature of the organisation and the continued budgetary pressures, the level of subsidy provided may fluctuate in future years. For 2024/25, the Scottish Budget was laid before the Scottish Parliament in December 2023 and indicated that the Annual Subsidy Limit for Forestry and Land Scotland would be £27.8 million.

For 2023/24, Forestry and Land Scotland have a forecasted budget deficit of £28.1 million that will be funded through the use of reserves and this forecast is heavily reliant on achieving the forecasted timber income. The use of reserves to bridge any deficits are finite and the continued reliance on reserves is not sustainable over the longer term and outlines that a major transformation programme will be required. From scenario planning undertaken by Forestry and Land Scotland, without investment and assuming unrestricted reserves can be utilised, cash reserves will fall to a break-even position by 2026/27.

Forestry and Land Scotland do not have formalised medium to long-term financial plans. Without forward looking plans, the financial sustainability of the organisation is difficult to forecast and the use of key assumptions, scenario planning, sensitivity analysis and risk analysis is more difficult to evidence. Forestry and Land Scotland are currently undertaking a review into business sustainability alongside an external consultant, and this is due to be reported on at the end of February 2024.

We will seek to understand the future financial forecasts and plans for Forestry and Land Scotland for 2024/25 and beyond, including key assumptions used, scenario planning, sensitivity analysis, risk analysis and the extent of any budget pressures and impact upon reserves. We will also consider the action Forestry and Land Scotland is taking to address identified funding gaps and associated savings plans. We have identified a significant risk in relation to Forestry and Land Scotland's financial sustainability from our initial planning work in relation to future financial plans for 2024/25 and beyond.

Wider scope risks identified in planning (3)

Financial management

We have not identified a risk in relation Forestry and Land Scotland's financial management from our initial planning work.

Forestry and Land Scotland have processes in place for members and senior management to manage the organisation's finances and these are set out within the Framework Document. We have not identified any evidence of the organisation not complying with these processes. Forestry and Land Scotland identifies future cost pressures as part of its initial budget setting process and is monitored on an ongoing basis throughout the year through the budget monitoring reports which are presented to the Management Board.

For 2023/24, the Management Board approved an expenditure budget of £159.0 million against income of £128.3 million resulting in a net deficit of £30.7 million. As at December 2023, Forestry and Land Scotland is currently forecasting a deficit of £28.1 million however, this is highly dependent on achieving the forecasted timber sales income. As at December 2023, timber income was £51.6 million against the annual budget of £87.8 million and the income required for the final three months of the year to meet this target, exceeds the income received from the final three months in the prior year. At December 2023, in terms of expenditure, there is currently an underspend of £13.0 million and a more detailed exercise is currently being undertaken to establish if these underspends are expected to continue to year-end.

We will seek to understand the effectiveness of Forestry and Land Scotland's budgetary control system in communicating accurate and timely financial performance. This will include reviewing the profiling of budgets and the arrangements in place for identifying, monitoring and reporting savings. We will consider the overall financial position reached by Forestry and Land Scotland and we will seek to understand the future financial implications of this. Additionally, we will seek to understand whether the control environment and internal controls are operating effectively which will include consideration of the work undertaken by internal audit and how management respond to their actions and recommendations.

Wider scope risks identified in planning (4)

Vision, Leadership and Governance

We have not identified a risk in relation to Forestry and Land Scotland's vision, leadership and governance arrangements from our initial planning work. A new Chief Executive was appointed in February 2024 to replace the current Chief Executive, who is retiring at the end of March. We will review the arrangements in place to support the transition of the new Chief Executive and ensure the continuation of strong leadership and governance.

Additionally, following a review of Forestry and Land Scotland's governance arrangements in December 2022, new governance mechanisms were introduced to deliver decision making and advisory capabilities across the organisation. This included replacing the existing Strategic Board with a Strategic Advisory Review Panel and replacing the current Executive Team with a Management Board. The new mechanisms are in place and during 2023/24, regular meetings have been held for each.

We will review the arrangements for your scrutiny and governance, leadership and decision making, and transparent reporting of financial and performance information. Our work will also include reviewing the consistency of your Governance Assurance Statement with the key findings from audit, scrutiny, and inspection.

Use of Resources to Improve Outcomes

We have not identified a risk in relation to Forestry and Land Scotland's use of resources to improve outcomes from our initial planning work.

Forestry and Land Scotland must make best use of its resources to meet stated outcomes and improvement objectives through effective planning and working with its strategic partners. This includes demonstrating economy, efficiency and effectiveness using available financial resources and reporting performance against outcomes

We will review the arrangements that Forestry and Land Scotland has developed to address workforce challenges and improve performance, including performance against standards/targets. We will also consider the arrangements Forestry and Land Scotland has in place to meet outcomes and improvement objectives, for working with strategic partners and communities and reporting performance against outcomes, financial and other resources.

Wider scope risks identified in planning (5)

Best Value

The Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Auditors are required to confirm that there are organisational arrangements in place in this regard when planning and reporting on the wider scope areas. Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM. The nature and extent of this work is determined by the annual risk assessment carried out as part of our wider scope work.

We will review the arrangements Forestry and Land Scotland has put in place to ensure it complies with the requirements to ensure that arrangements have been made to secure Best Value. This work will be carried out in conjunction with our work on the four wider scope themes.

We will report on the arrangements in place to secure Best Value within our Annual Audit Report.

Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC on audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the Scottish quality framework.

Audit fees were shared by Audit Scotland with Forestry and Land Scotland in January 2024. Our audit fee was agreed by the Director of Corporate Services and confirmed at the Audit and Risk Committee on 11 March 2024. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered including working papers not being available, the quality of accounts are not at the level required and/or new technical matters arise.

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified.

We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Fee assumptions

In setting the fee for 2023/24, we have assumed that you will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit by the date agreed with auditors
- produce draft accounts that have cleared all issues identified during 2022/23 to ensure these do not reoccur
- produce draft accounts that are complete with all requested adjustments included in the draft accounts
- provide appropriate analysis, support and evidence for all critical and significant judgements and estimates made in preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- ensure that all appropriate staff, including valuation experts are available to us for queries over the planned period of the audit, or as otherwise agreed.

Audit fees for 2023/24

Service	Fees £
External Auditor Remuneration	£119,230
Pooled Costs	£12,040
Sectoral cap adjustment	-£23,240
2023/24 Fee	£108,030

Additional Fees (Non-Audit Services)

Service	Fees £
At the planning stage, we confirm there are no planned non-audit services	Nil

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Independence

Auditor independence

Ethical Standards and ISA (UK) 260 'Communication with Those Charged With Governance' require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the Firm, or covered persons, relating to our independence.

We encourage you to contact us to discuss any independence issues, with us and will discuss the matter with you if we make any significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors of Forestry and Land Scotland that we are required to report or wish to draw to your attention.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the 2019 Ethical Standard.

Our team complete annual fit and proper declarations, including independence confirmations, as well as confirming independence from individual audited bodies when completing timesheets. The work of our Ethics team is overseen by our Ethics partner and all staff undergo regular ethics training each year.

We confirm we are independent of Forestry and Land Scotland.

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. We did not provide any non-audit or additional services to Forestry and Land Scotland prior to our appointment as auditors.



Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

Forestry and Land Scotland

Your responsibilities include:

- Maintaining adequate accounting records and working papers
- Preparing accounts for audit, comprising financial statements, which give a true and fair view, and related reports
- Establishing and maintaining a sound system of internal control
- Establishing sound arrangements for proper conduct of affairs, including the regularity of transactions
- Maintaining standards of conduct for the prevention and detection of fraud and other irregularities
- Maintaining strong corporate governance arrangements and a financial position that is soundly based
- Establishing and maintaining an effective internal audit function.

External Audit

Our responsibilities include:

- Compliance with the FRC Ethical Standard
- Compliance with the Code and UK Auditing Standards (ISA's UK) in the conduct and reporting of our financial statements audit
- Compliance with the Code and guidance issued by Audit Scotland in the conduct and reporting of our wider scope work
- Providing assurance on specified returns and other outputs (where required), as specified in guidance issued by Audit Scotland
- Liaison with and notifying Audit Scotland when circumstances indicate a statutory report may be required.
- Contributing to relevant performance studies (as set out in Audit Scotland's Planning Guidance for 2023/24).



Communication

ISA (UK) 260 'Communication with Those Charged With Governance', as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (the Audit and Risk Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Audit and Risk Committee.

	Audit Plan	Annual Report (our ISA 260 Report)
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of Forestry and Land Scotland's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report or emphasis of matter		•

Fraud responsibilities (1)

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' came into force for accounting periods commencing on or after 15 December 2021. Requirements in ISA (UK) 240 (Revised May 2021) have been enhanced for the identification and assessment of risks of material misstatement due to fraud and the response to those risks.

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Forestry and Land Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is Forestry and Land Scotland's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

As auditors, we are required to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

As part of our risk assessment procedures, we are required to:

- identify and assess the risks of material misstatement in the financial statements due to fraud, including financial misreporting and misappropriation of assets.
- hold separate discussions with management, those charged with governance and others (as appropriate) to gain insights on their views of fraud.

Fraud responsibilities (2)

During our audit work we will:

- design and implement appropriate audit procedures to respond to the risks of misstatement we have identified and reported in this Audit Plan
- remain alert to new risks and amend our risk assessments accordingly
- respond appropriately to any risks identified.

Throughout the audit we work with you to consider the significant risks we identify, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control. We will report to you any significant deficiencies we identify.

In addition, as set out in the Audit Scotland Planning Guidance 2023/24, we are required to:

- provide information on fraud cases to Audit Scotland on a quarterly basis
- communicate emerging issues to Audit Scotland, and
- contribute to the National Fraud Initiative report

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the Audit Scotland Planning Guidance for 2023-24) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Forestry and Land Scotland we will report to the Auditor General as required by Audit Scotland.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs), our audit will include the completion of an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach, we will perform the indicated level of assessment.

IT system	Audit area	Planned level IT audit assessment
E-Financials	Financial Reporting Payroll	<ul style="list-style-type: none"> ITGC Assessment
Sales Recording Package	Timer Sales Income	<ul style="list-style-type: none"> ITGC Assessment
Land Valuation Database	Biological Assets Forest Estate and Land	<ul style="list-style-type: none"> ITGC Assessment
Sub Compartment Database	Biological Assets Forest Estate and Land	<ul style="list-style-type: none"> ITGC Assessment

Future auditing developments

There are changes to the following ISAs (UK) which will impact on central government audits for the first time.

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2022 which will impact on Forestry and Land Scotland for the first time in 2023/24 are:

- ISQM (UK) 2 (Issued July 2021) 'Engagement Quality Reviews'
- ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Quality control	<ul style="list-style-type: none"> • ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer (EQR) and the EQRs responsibilities relating to the performance and documentation of an engagement quality review. • The objective of the firm, through appointing an EQR, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon. • The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and applicable legal and regulatory requirements; and the auditor's report issued is appropriate in the circumstances.
Direction, supervision and review of the engagement	<ul style="list-style-type: none"> • Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.
Documentation	<ul style="list-style-type: none"> • The amendment to these auditing standards will result in additional documentation requirements to demonstrate how these requirements of these revised standards have been addressed.

