

# Forestry Commission Scotland

Report on the 2009/10 Audit to Forestry Commission Scotland  
and the Auditor General for Scotland

September 2010



 AUDIT SCOTLAND



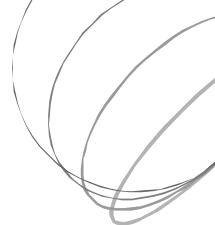
# Forestry Commission Scotland

**Report on the 2009/10 Audit to Forestry Commission Scotland  
and the Auditor General for Scotland**

**September 2010**

# Contents

Key messages	1	Governance and Accountability	15
Introduction	3	Performance	18
Financial Statements	5	Looking Forward	23
Use of Resources	9		



# Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by Forestry Commission Scotland (FCS). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

## **Financial statements**

We have given an unqualified opinion on the financial statements of FCS for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

## **Financial position and use of resources**

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes

FCS's Statement of Parliamentary Supply for 2009/10 shows a net resource of £6.935 million with a net cash requirement of £49.425 million. These were within the budget set by the Scottish Parliament of £83.350 million and £65.050 million respectively. The operating cost for FCS was reduced by a gain on revaluation of biological assets of £93.371 million.

Funding for FCS for 2010/11 has been set at £79.9 million. FCS has highlighted a number of risks to operating within the resource budget for 2010/11 and is also required to make contribution to a 2% per annum cash releasing efficiency saving for the Rural Affairs and Environment portfolio in the 2010/11 budget settlement. These will be challenging targets for FCS to achieve and we will continue to keep developments in this area under review.

## **Governance and accountability**

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for FCS operated satisfactorily during the year, as reflected in the Statement on Internal Control.



We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

## **Performance**

The National Forest Estate Strategic Plan 2009-13 describes how FCS will implement the Scottish Forestry Strategy (SFS) and deliver a number of priorities for management of the national forest estate set out within the Strategy. For each of the priorities, a number of actions and priority actions have been identified for FES within the Strategic Plan which are to be delivered through a mixture of national activities and also local activities which are detailed in Forest District Strategic Plans. Monitoring of progress against both national and local activities is currently being established across all ten forest districts to determine collective progress in delivering against the Strategy. The results will be published annually at a national level, with the first report expected to be published in October 2010.

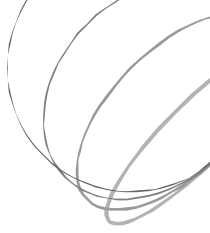
A progress report was published in April 2010 which summarises what FCS and its 2009-2010 action partners have delivered during the year against SFS outcomes. Of the 198 actions in the 2009-2010 Implementation Plan, 162 (82%) were achieved and thirty two (16%) have been carried over into the 2010-2011 plan. Three have been superseded. The SFS also identifies a set of indicators for each of the key themes which are used to gauge progress over the life of the current strategy. A number of the indicators are still under development, however, for those indicators updated annually, a record of progress against the themes is emerging. FCS has highlighted in particular that the area of new planting is down

## **Looking forward**

The final part of our report notes some key risk areas and issues for FCS going forward, including information management and business continuity arrangements. FCS, like other public bodies, will also face significant financial pressure over the next three years to achieve financial balance. We will continue to monitor financial planning arrangements and FCS's financial position.

The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

**Audit Scotland**  
**September 2010**

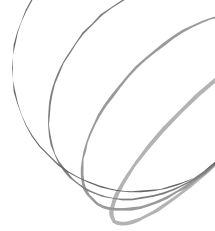


# Introduction

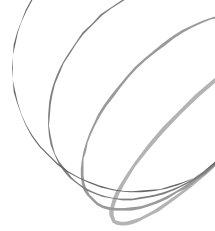
1. This report summarises the findings from our 2009/10 audit of FCS. The scope of the audit was set out in our Audit Plan in accordance with the Code of Audit Practice, which was presented to the Audit and Risk Committee on 10 March 2010. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response.
3. Best value duties apply across the public sector and are a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

Exhibit 1: Framework for a best value audit of a public body





4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.
5. Throughout this report we comment on aspects of FCS arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of FCS, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and members of FCS during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



# Financial Statements

8. In this section we summarise key outcomes from our audit of FCS financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

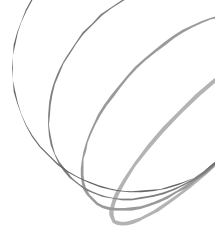
## Our responsibilities

9. We audit the financial statements and give an opinion on:
  - whether they give a true and fair view of the financial position of FCS and its expenditure and income for the period in question
  - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
  - the consistency of the information which comprises the Management Commentary, Corporate Social Responsibility, Leadership and Governance and Forestry Commission Scotland Finances included in the Annual Report, is consistent with the financial statements
  - the regularity of the expenditure and receipts.
10. We also review the statement on internal control by:
  - considering the adequacy of the process put in place by the Director as Accountable Officer to obtain assurances on systems of internal control
  - assessing whether disclosures in the statement are consistent with our knowledge of FCS.

## Overall conclusion

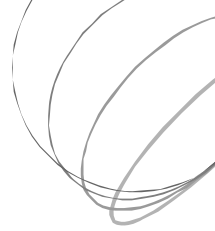
11. We have given an unqualified opinion on the financial statements of FCS for 2009/10.
12. The timetable for the preparation and submission of the accounts for audit and approval was set out by FCS in conjunction with the FAS team and agreed with us. The accounts for FCS were due to be presented for audit on the 14 May 2010 as part of that timetable, however the draft accounts were not available until late on the 27 May 2010 – almost two weeks later than planned. As the timetable for delivery and audit of the accounts was already very tight, this delay in presentation of the accounts meant that the ARC had to be rescheduled to 28 July 2010.





## Issues arising from the audit

13. As required by auditing standards we reported to the audit committee on 28 July 2010 the main issues arising from our audit of the financial statements. The key issues were as follows:
14. **Preparation of the Forest Estate Valuation** – The accounting for the forest estate and, more recently, biological assets under IAS 41 has always involved a number of complex systems that have to be brought together at the year end in order to determine the balance sheet values. In previous years we had reported that because one lead officer carries out the majority of the detailed work in relation to the forest estate and other land valuations for FCS, and the other countries, this creates a significant risk to the accounts preparation process.
15. We received the detailed forest estate valuation calculations for FCS along with the draft 2009/10 accounts, however after identifying significant errors in relation to the indexation of the valuation, FCS revisited the detailed calculations and re-submitted the revised working papers to us on the 23 June. This revision resulted in changes of £40.356 million to FCS's reported outturn for 2009/2010. As we reported in our IFRS shadow accounts letter in December 2009, the volatility of the various factors which impact on the Forest Estate valuation means that it is important that FCS understand and monitor this. The level and timing of these adjustments to the 2009/10 accounts significantly restricted FCS' ability to manage this position. In resolution of this issue, an early review meeting is planned between FCS and audit to consider the 2009/10 accounts process and areas for improvement for 2010/11.
16. **Bank Reconciliations** - The Cooperative Bank account reconciliation was prepared as at the 31 March but this did not take account of the movements in period 13 within the financial ledger. As a result, approximately £1 million of transactions from period 13 were not reconciled with the bank accounts as part of the preparation of the annual accounts. Revised working papers were prepared in support of the financial statements and submitted these to us for review on 21 June 2010. Officers have agreed that year end instructions will be refreshed for 2010/11 and that an additional review will be undertaken to ensure that all year end procedures are completed in preparing the annual accounts for 2010/11.
17. **Woodland Grant Debtor** – The Head of Internal Audit, in her annual report, noted a concern over the handling of a complex high value woodland grant reclaim. The value of the debt within FCS's accounts is £571,000, and the Head of Internal Audit highlighted that this continued to represent considerable financial and reputational risk for FCS. Officers confirmed that they are working with the Scottish Government to remedy this position, and we sought specific assurances from the Accountable Officer within his letter of representation on this matter.



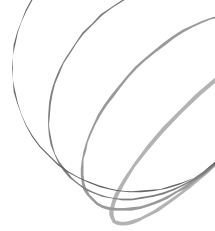
18. **Assets held for sale** – As part of the production of accounts under IFRS, FCS has had to separately disclose and value non current assets (fixed assets) held for sale. We found errors in the values used for the figures included in the accounts, as these had been incorrectly extracted from the financial ledger. The impact of these errors is that non current assets held for sale at 31 March 2010 were overstated by £7.7 million, and Property Plant and Equipment assets were understated by the same value. FCS accounts were adjusted to reflect the correct book values.

## Regularity

19. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

## International financial reporting standards (IFRS)

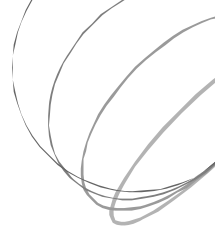
20. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.
21. We were required to review the 2008/09 shadow accounts and report on them to FCS by 28 February 2010. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and bring to the attention of FCS any matters that might prevent these accounts from forming a reliable basis for the first set of IFRS based accounts for the 2009/10 financial year.
22. IAS 41 prescribes the accounting treatment related to agricultural activity and FCS is required to carry all biological assets (trees) held for agricultural purposes at fair value less estimated point of sale costs. Land and biological assets falling outwith the scope of IAS 41 are treated in accordance with IAS 16 and remain within the Forest Estate category of fixed assets. Variations in the carrying amount between years, of biological assets related to agricultural activity, are reported as part of the operating costs statement (OCS). In the 2008/09 statutory accounts under UK GAAP, FCS did not separately account for biological assets. Instead, these were included within the Forest Estate category of fixed assets which included land, all trees growing on that land and access roads. These were valued on an existing use basis under UK GAAP.



23. The shadow accounts and some supporting documentation for the 2008/09 financial year were submitted by FCS for audit review on 30 September 2009 although these did not include the restated opening balances. In response to FCS's request for completion of our work by mid-December 2009, we prioritised review of the shadow accounts but we were unable to conclude that the allocation methodology adopted by FCS provided an appropriate basis to apportion the forest estate between land and biological assets within/outwith IAS 41 and exclude duplication. We were also unable to fully complete our review in a number of areas of work because of delays in the provision of supporting documentation. These matters were reflected in the December 2009 report arising from our review of IFRS 2008/09 shadow accounts which concluded that the following areas required further work by FCS to ensure that the full IFRS accounts in 2009/10 are true and fair:

- IAS 41 Biological Assets
- Accounting for the forest estate
- Felled timber
- Non-current Assets held for sale.
- Leases.

24. These matters were considered further during our audit of the 2009/10 financial statements and were largely resolved following revision to the methodology to determine the biological assets to be accounted for under IAS 41, and the provision of full supporting documentation as part of the 2009/10 Accounts process. The main adjustments to opening balances related to the identification and separate classification of biological assets, identification of non-current assets held for sale, accruals in respect of pay in lieu of untaken leave and performance related pay bonus, and an adjustment for the value of timber harvested. An adjustment was also required for the reclassification of finance leases for land. In addition, 2008/09 balances were restated due to a change in accounting policy relating to roads, restocking and new planting expenditure. These adjustments are detailed in the Notes to the Accounts



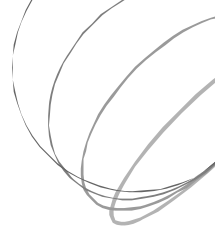
# Use of Resources

25. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of FES
- financial position
  - financial management
  - management and use of information and communications technology (ICT).

## Financial Position

### Outturn 2009/10

26. FCS Statement of Parliamentary Supply for 2009/10 shows a net resource of £6.935 million with a net cash requirement of £49.425 million. These were within the budgets set by the Scottish Parliament of £83.350 million and £65.050 million respectively. FCS drew down £51.0 million against the cash estimate during the year. The cash balance of £1.575 million will be repaid to the Scottish Government during 2010/11.
27. The operating cost for FCS has been reduced by a gain on revaluation of biological assets of £93.371 million. Under IAS 41, increases in the value of biological assets will be recognised as income in the OCS, while decreases in value will be recognised as expenditure. Recognition of unrealised gains and losses in the OCS will result in that statement being subject to the volatility of market price. Forestry is a cyclical business and it is inevitable that falling markets will be encountered in the future. FCS, with the Scottish Government, will require to understand the budgetary impact of unrealised gains/losses on FCS estimates and the potential volatility of this.
28. The Operating Cost Statement (OCS) shows a net operating cost of £12.166 million. The most significant elements of the operating costs were the programme expenditure on grants paid to woodland owners of £10.2 million, expenditure on restocking and roads of £10.0 million and £13.1 million respectively, the book value of felled timber of £18.3 million, the cost of capital of £29.5 million and funding of Forest Enterprise Scotland of £31.5 million.
29. For 2009/10, the book value of felled timber is accounted for within the OCS under IFRS for the first time. Expenditure on restocking and roads is also included within the OCS for the first time in order to reflect the substance of the arrangement (previously the expenditure remained in FES accounts).
30. FCS Statement of Financial Position at 31 March 2010 shows total net assets of £1,055.468 million (2008/09 restated of £880.995 million). The increase is attributable mainly to the 2009/10 revaluation of Forest Estate and Land which resulted in an increase of some £107 million.



## Scotland's public finances

31. The Auditor General's report on *Scotland's public finances, published in November 2009*, contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:

### **Extract from Auditor General's report *Scotland's public finances***

*The public sector is coming under the greatest financial pressure since devolution.*

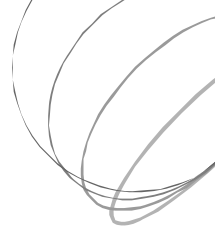
- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.

*The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.*

- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

*In the current economic climate difficult decisions will have to be made about priority spending programmes.*

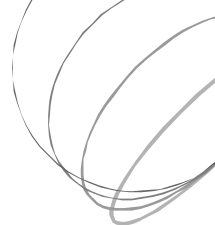
- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.



32. The Director Scotland advised the FCS Management Board in July 2010 that ahead of any further Scottish Government (SG) requirement, savings had already been identified within FCS that amounted to a 10% reduction in spend of some £7 million. These savings include a recruitment freeze, a voluntary early retirement scheme and a Shared Services review. A review of Forestry Business Units has also recently been completed which may identify further opportunities to produce savings.
33. A £2 million underspend on SRDP grants for 2010/11 has already been declared to the Scottish Government. The position on grants is to be reviewed at an early date to allow for resource reallocation as part of the autumn and spring budget revision exercises.

### **Financial sustainability and the 2010/11 budget**

34. Scottish Ministers have agreed budgets for FCS of £79.9 million for 2010/11 excl. capital charges (£77.4 million 2008/09 restated). This comprises:
  - Woodland Grants £27.0 million
  - Programme costs of £24.5 million
  - Policy Regulation and Administration £5.1 million
  - Forest Enterprise Scotland funding of £26.3 million
  - Co-financing receipts from the EC of £6.0 million
  - Plantation and Land sales of £15.0 million
  - Capital expenditure of £19.4 million.
35. Papers to the management board have highlighted the following risks to achieving the resource budget:
  - FES ability to generate income from timber sales and other development opportunities in the forest estate.
  - Uncertainty in relation to the level of uptake by the private sector of forestry grants.
  - Increase in the valuation of the forest estate.
  - Response to wider government initiatives to support small and medium businesses.
36. In order to ensure that the financial position is monitored effectively, cashflow forecasts are presented regularly to the Management Board which track Income/expenditure and cashflow during the year (actuals and forecasts). The main drivers such as timber income and volumes are captured monthly. The Management Board is updated within a month of the period end.



37. We will continue to monitor the financial position and the actions taken by FCS to manage financial and budgetary risks

## **Management and use of ICT**

### **Payroll system – Follow up**

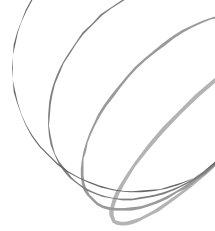
38. An Application System Review for payroll as undertaken during 2008/09 and followed up during 2009/10. Our follow-up review identified that Forestry Commission GB and Shared Services (FC) has addressed the risks that were reported in the initial review, including:
- potential duplicate payroll records have been investigated by internal audit and payroll
  - user accounts are monitored to ensure they are up to date and all terminations and transfers have been actioned timeously.

### **eFinancials system – Follow up**

39. An Application System Review for eFinancials was also followed up during 2009/10. Our follow-up review identified that FC has implemented actions to address many of the risks that were reported in the initial review. Our review also identified that FC plan to implement the following remaining planned actions during 2010:
- piloting and then fully implementing new supplier maintenance functionality
  - developing a business continuity strategy including a shared services business continuity plan for Silvan House.
40. We will continue to monitor developments in this area during our audit in 2010/11.

### **Information Services Service Loss (Altiris Incident) December 2008**

41. As a result of the Information Services (IS) service loss, an action plan was produced and presented to the Information Security Management Forum in July 2009. Members expressed concern over the length of time it would take to address key areas of vulnerability and noted that the plan would not be fully implemented until March 2011 at the earliest.
42. A revised plan and costings were subsequently provided and the additional expenditure to achieve this agreed by the ICT Service Board. The revised plan, which also reflected a new IS organisational structure effective from 1 March 2010, still records extended implementation dates. Additional funding has been secured and new equipment recently procured to begin to satisfy some of the demands of the plan, in particular back-up and recovery arrangements. Internal Audit plan to test current back up and recovery arrangements and will report in the near future.



## **Business Continuity Management**

43. We maintained a watching brief in relation to the development of business continuity management throughout FC. As part of the business continuity strategy, a third party contractor (Garrison Continuity) has undertaken a business impact analysis of shared services at Silvan House and met with all business areas during April – May 2010. This is intended to assist FC in the development of a shared services business continuity plan and disaster recovery plan during 2010/11.
44. As part of their agreed programme of work, FC Internal Audit carried out a business continuity planning review during April 2010. Their review concluded that:
- The existence of plans at country level is encouraging, despite the fact that most of these will require some modification as the project develops. The testing of plans through the recent severe winter weather and also the swine flu outbreak had given management some level of assurance.
  - The work contracted to Garrison Continuity and the recent delivery of new IT equipment represents a step forward in the overall development of Business Continuity Management at FC. However, addressing the issues of developing adequate Shared Service plans, making an effective link with the plans of the countries and working their business needs into a deployable Disaster Recovery Plan will take some time.
  - Information Services' inability to recover in the event of a disaster or catastrophic systems failure is of serious concern and represents a significant risk to FC.
45. Internal Audit have concluded that in respect of the arrangements for Business Continuity Planning at the present time, there is limited assurance that material risks to the achievement of the business objectives are adequately managed. We will continue to monitor arrangements for business continuity management within FC and the actions taken to manage these risks.

## **Information Assurance and Data Handling**

46. FC voluntarily completed the Security Policy Framework annual assurance return to the Cabinet Office in August 2009 and plan to complete the Cabinet Office 2010 return. FC has nominated a Senior Information Risk Owner for each country and all staff have participated in the Cabinet Office security training – protecting information. One issue that FC have agreed to consider further is development of an Information Asset Register outlining key personal and sensitive information held within each business area, responsible owners, how the data is stored and who it is shared with internally and externally. Work is also ongoing regarding defining the roles and responsibilities of the information asset owners.



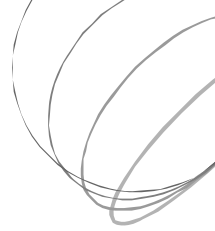


47. FC Internal Audit carried out an Information Assurance and Data Handling review during April 2010.

Their review concluded that:

- Work has been carried out by management in connection with Information Assurance and Data Handling during 2009/10 although there is still a lot of work to do.
- The most significant omission is the absence of an overall project plan for full compliance which identifies milestone dates against which management's progress can be measured.
- The slippage in delivering the change required and the lack of a formal project plan represents a major risk to the effective management of information, particularly affecting business continuity and reputation.

48. Internal Audit also concluded that limited assurance could be given that material risks to the achievement of the business objectives are adequately managed and that significant improvements were still required to improve the adequacy and effectiveness of control to a satisfactory level. We will continue to monitor developments in this area during our audit in 2010/11.



# Governance and Accountability

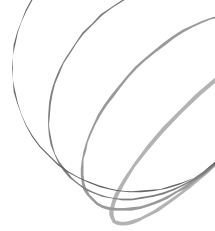
49. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of FES arrangements.
50. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

## Overview of arrangements

51. This year we considered:
  - partnership working
  - shared services and common account areas
  - key systems of internal control
  - internal audit
  - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
52. Our overall conclusion is that arrangements within FCS are sound and have operated through 2009/10.

## Partnership working

53. In June 2007 Ministers challenged the organisations delivering the rural affairs and environment portfolio to create a single environment and rural delivery service (SEARS). SEARS brings together nine delivery-focused bodies within the Rural and Environment sector to provide more joined-up services. FCS is one of these bodies.
54. The first annual review of SEARS was published in June 2009 and noted how far the nine organisations had come in working closely together to deliver for Scotland's land managers. This year there have been further benefits and reductions have been made on inspections resulting in more time saved for customers. Good progress also continues on bio security, co-locations and reducing bureaucracy. Preparatory work began late in 2009 to develop a pilot of the "rural hubs" concept, to further improve access to services.



55. Looking forward FCS recognise that there should be further opportunities within SEARS for future efficiencies through shared projects and services.

## Shared services and common account areas

56. The structure of the Forestry Commission Audit has changed in recent years due to the devolution settlement across Scotland and Wales. This has made the administration of the Forestry Commission more complex, with a similar impact for the audit process across the three external bodies.

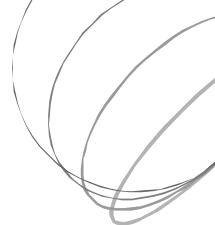
57. The audit arrangements are designed to:

- Secure proper representation of the interests of the Comptroller and Auditor General, the Auditor General for Scotland and the Auditor General for Wales in forestry accounts laid before the respective Parliaments/Assembly, taking assurance from the Quality Assurance arrangements operated centrally by Audit Scotland.
- Observe the public interest by delivering an efficient co-ordinated audit which avoids unnecessary duplication and expense.
- Meet the Forestry Commission's expectation to deal with a single audit team wherever possible, given its single central accounting arrangements. Irrespective of the part played by different audit bodies, the audit should appear to the client to be seamless and integrated, resulting in a consistent audit view accounting matters.

58. We carried out audit testing and provided assurance as agreed in detail with the other audit agencies for the 2009/10 accounts. Proposed changes in the provision of accounting services at country level will impact on these arrangements and we are monitoring developments with partners in other audit agencies.

## Systems of internal control

59. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In her annual report for 2009/10 the Head of Internal Audit, the internal auditors, provided their opinion that based on the internal audit work undertaken during the year, there was reasonable assurance on the adequacy and effectiveness on the systems of internal control.
60. As part of our audit we reviewed the high level controls in a number of FCS systems that impact on the financial statements. This audit work covered shared account areas and linked common systems at Forestry Commission Headquarters in Edinburgh as outlined at para 57 above. Our overall conclusion was that key controls were operating effectively and that Forestry Commission has



adequate systems of internal control in place. We did identify a number of areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed up as part of our 2010/11 work to confirm that the agreed improvements have been made.

## **Statement on Internal Control**

61. The Statement on Internal Control provided by the Agency Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out FCS approach to this.

## **Internal Audit**

62. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on the internal audit function. We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2009/10, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.

## **Prevention and detection of fraud and irregularities**

63. FCS has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.

## **National Studies**

64. In August 2010 Audit Scotland will be publishing a national study on *The Role of Boards* which will be relevant to the governance of FCS. Boards play a crucial role in ensuring that governance standards are maintained in public sector organisations. Feedback relating to FCS will be provided in due course where appropriate.

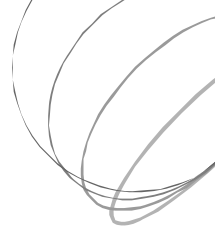


# Performance

65. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
  - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
66. In this section we comment on:
- strategic plans
  - performance against targets
  - risk management arrangements
  - efficiency programme.

## Vision and strategic direction

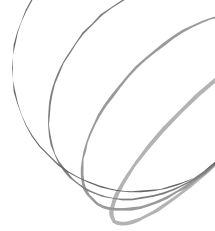
67. The National Forest Estate Strategic Plan 2009-13 describes how FCS will implement the Scottish Forestry Strategy and deliver the following six priorities for management of the national forest estate set out within the Strategy:
- Safeguarding national forestry treasures.
  - Delivering forestry for people and rural development benefits where people live and work.
  - Managing landscape scale core areas for threatened species and habitats.
  - Retaining sufficient timber production potential to facilitate market stability and development.
  - Using acquisition/disposal, partnerships and other arrangements to generate a greater scale and pace of change.
  - Sustaining sufficient regional presence to exercise policy development, exemplar and leadership roles.
68. For each of the six priorities, a number of actions and priorities have been identified for FES within the Strategic Plan which are to be delivered through a mixture of national activities and also local activities which are detailed in Forest District Strategic Plans. These District Plans take their lead from the Strategic Plan but account for local priority and context against each of the seven themes within the



Scottish Forestry Strategy. Monitoring of progress against both national and local activities is currently being established across all ten forest districts to determine collective progress in delivering against the Strategy. The results will be published annually at a national level, with the first report expected to be published in October 2010.

## Performance overview

69. The Scottish Forestry Strategy (SFS) implementation plan 2008/11 contained a number of specific action points for 2009-10 based around seven key themes within the Strategy:
- Tackling climate change
  - Promotion of timber
  - Business development
  - Boosting community involvement
  - Environmental quality
  - Improving access and health
  - Enhancing biodiversity.
70. The SFS makes a commitment to the publication of implementation plans to guide delivery and a progress report was published in April 2010 which summarises what FCS and its 2009-2010 action partners have delivered during the year against the strategy outcomes. Of the 198 actions in the 2009-2010 Implementation Plan, 162 (82%) were achieved and thirty two (16%) have been carried over into the 2010-2011 plan. Three have been superseded.
71. The SFS also identifies a set of indicators for each of the key themes which are used to gauge progress over the life of the current strategy. A number of the indicators are still under development, however, for those indicators updated annually, a record of progress against the themes is emerging. FCS has highlighted in particular that the area of new planting is down.
72. Major developments against the SFS during 2009/10 included:
- The Minister for Environment officially opened Forest Holidays' new cabin site at Ardgarten in October 2009. This is the latest phase of Forest Holidays' £8.5 million investment in Scotland.
  - The Central Scotland Green Network was formally launched in September 2009.
  - The Climate Change (Scotland) Act 2009 requires Ministers to lay a Land Use strategy before the Scottish parliament by 31 March 2011. FCS is closely engaged in developing this strategy.



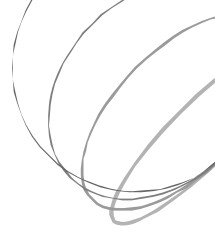
- As outlined at para. 67 above, FCS has published The National Forest Estate: Strategic Plan 2009-13, setting out proposals for further implementation of the SFS on the national forest estate.

## Risk management

73. Risk registers are formally reviewed by the FCS Management Board as a standing item and updates on risk management are formally reported to the Audit and Risk Committee throughout the year, in line with their terms of reference. An updated risk register was considered and approved by members of the FCS Management Board in April 2010. This was preceded by a separate review undertaken by Senior Responsible Owners (SROs) who considered the content of each of their own individual risk scores and the adequacy of the control framework. The main risk area identified is in relation to the failure to meet forestry expansion targets. We will continue to monitor risk management arrangements within FCS and the actions taken to manage the risks.

## Improving public sector efficiency

74. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provides a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.
75. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult.
76. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
77. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see below).



**Extract from Audit Scotland report *Improving public sector efficiency***

*In order to improve the delivery of efficiency savings public bodies should:*

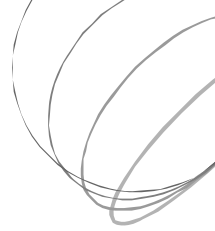
- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

78. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.
79. For 2010/11, FCS (including FES) is required to make contribution to a 2% per annum cash releasing efficiency saving for the Rural Affairs and Environment portfolio. The 2% efficiency represents in the region of £2 million for FCS. The FCS Delivery Plan for the 2008-11 Efficiency Programme records that it plans to sell those assets delivering least against Scottish Government objectives and reinvest the excess of income over expenditure (£10 million per annum for each of the three years) on buying land and planting trees that better meet Scotland's needs. These disposals and acquisitions are managed by FES through the 'Repositioning Programme' but are held on FCS accounts. The Delivery Plan also records that although FCS plan to sell around £15 million of assets per annum, there are risks attached to the programme which will arise from market conditions and also their ability to purchase and plant appropriate land using these released funds. Cash efficiencies delivered by FCS/FES through the Repositioning Programme in 2008/09 are recorded by the Scottish Government as £11.9 million.





80. The Head of Estates, FES, reported to the July 2010 meeting of the FES Management Board that disposals and acquisitions secured for 2010/11 were currently £12.2 million and £4.6 million respectively. The Board also agreed to revise the 2010/11 forecasts for disposals and acquisitions to £20.5 million and £10.0 million respectively (from £23.5 million and £13.0 million). We will continue to monitor the financial position in relation to the programme and the actions taken by FCS/FES to manage the risks.



# Looking Forward

81. FCS faces a number of challenges in 2010/11 and beyond, which include:

- **Efficiencies and future funding** - Scottish public bodies reported more efficiency savings than the Government's two per cent target in 2008/09, but there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult. Director Scotland advised the FC Scotland Management Board in July 2010 that ahead of any further Scottish Government (SG) requirement, savings had already been identified within FCS that amounted to a 10% reduction in spend of some £7 million. These savings include a recruitment freeze, a voluntary early retirement scheme and a Shared Services review. A review of Forestry Business Units has also recently been completed which may identify further opportunities to produce savings. However, the challenge for FCS will be to monitor financial and budgetary risks to ensure delivery of key targets and objectives within a tighter funding regime beyond 2010/11.
- **Financial management and affordability** - A £2 million underspend for 2010/11 on SRDP grants has already been declared to the Scottish Government and this position will be reviewed at an early date to allow for resource reallocation as part of the autumn and spring budget revision exercises. In addition, FES has a forecast surplus (£3.5 million at July 2010) against the 2010/11 resource budget as a result of additional timber supply income, which will allow for additional restocking and roading programmes. It remains unclear, however, what impact the current recession will have beyond 2010/11 and timber income levels currently anticipated may not be realised, reducing the amount available to spend and FCS's ability to deliver the Scottish Forestry Strategy.
- **Protecting information in Government** - The Head of Internal Audit has highlighted that insufficient progress on key business continuity planning and information assurance work has led to a limited opinion in respect of these items. The most significant omission in respect of information assurance is the absence of an overall project plan that addresses all strands of the work required for full compliance and that clearly identifies milestone dates against which management's progress can be measured. Significant improvements are therefore still required to improve the adequacy and effectiveness of control to a satisfactory level.
- **Best Value** - The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government's commitment to refreshing its Best Value Guidance for Public Bodies. FCS should continue to respond to this important initiative as it develops.