

Forest Enterprise Scotland

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Forest Enterprise Scotland

March 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the Code of Audit Practice, and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
3. The Forestry and Land Management (Scotland) Act received Royal Assent on 1 May 2018. The Act aims to provide a framework to develop, support and regulate forestry in Scotland and includes a requirement for a Scottish forestry strategy and a duty to promote sustainable forest management. As a result of the Act, Forest Enterprise Scotland will be replaced by a new Agency, Forestry and Land Scotland which will come into operation on 1 April 2019. The challenge for Forest Enterprise Scotland is to continue to provide services during this period of significant organisational change.

Adding value

4. We aim to add value to Forest Enterprise Scotland through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help Forest Enterprise Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

5. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Forest Enterprise Scotland. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of year end payables and receivables. • Substantive cut-off testing of income and expenditure to

 Audit Risk	Source of assurance	Planned audit work
<p>change the position disclosed in the financial statements.</p>		<p>ensure that these have been recognised in the correct financial year.</p> <ul style="list-style-type: none"> • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income</p> <p>FES receives a significant amount of income in addition to Scottish Government funding.</p> <p>In 2017/18, FES received income in excess of £89m from other sources, including £67.9m from timber sales. The nature, extent and complexity of income sources mean that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Effective budget monitoring.</p> <p>Effective Counter Fraud and Whistleblowing policies and procedures in place.</p> <p>Well established systems and control procedures in place.</p>	<ul style="list-style-type: none"> • Analytical procedures on income streams. • Detailed testing of revenue transactions focusing on the areas of greatest risk. • Substantive cut-off testing of income to ensure it has been recognised in the correct financial year. • Controls testing during the forest region visit, including timber income controls and timber security arrangements. • Review of the Sales Recording Package (SRP) system and key controls. • Review of FES's anti-fraud arrangements and completion of NFI questionnaire.
<p>3 Accounting estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets (Forest estate and biological assets) (2017/18: £1,893m), timber stock and work-in-progress (2017/18: £5.6m) and contingent liabilities (2017/18: £2.9m).</p>	<p>Sound arrangements for providing valuation information have been established.</p> <p>Valuers are established and recognised providers in their field.</p> <p>Management monitor opencast coal site contingent liability.</p>	<ul style="list-style-type: none"> • Review the work of an expert for the professional valuer (wind farms/ hydro, and forest estate/ biological assets). • Review of annual indexation process and subsequent accounting adjustments for forest estate valuations. • Review of annual valuation exercise for year-end stock disclosures in the financial statements. • Review of accounting policies. • Regular discussions with management on the opencast coal sites potential liability. We will also consider the accuracy and valuation of the disclosure in the financial statements. • Focused substantive testing of year end balances.
<p>4 Accounts preparation</p> <p>The finance team has undergone significant change in terms of resourcing and responsibilities during</p>	<p>Finance team restructure.</p> <p>Recruitment process is underway.</p>	<ul style="list-style-type: none"> • Monitor progress towards recruitment of staff.

	Audit Risk	Source of assurance	Planned audit work
	<p>the period of forestry devolution and the creation of the new Agency.</p> <p>There continue to be vacancies for posts responsible for the compilation of the financial statements. Temporary staff are being used to cover some of the staff shortfall.</p> <p>Until staff become suitably knowledgeable and experienced, there is a risk that there is a delay in the submission of the unaudited annual report and accounts.</p>		<ul style="list-style-type: none"> • Regular discussions to monitor progress against the year-end timetable. • Key controls testing as part of interim audit. • Data analytics interrogation of ledger downloads.

Wider dimension issues and risks

5	<p>Financial sustainability</p> <p>Eighty per cent of FES' expenditure is funded by income generating activities (£89m in 2017/18). The remainder is met by a Forestry Commission Scotland (FCS) grant (£22.6m in 2017/18).</p> <p>Timber income in 2017/18 was £67.9m. Fluctuations in timber income and any subsequent cost pressures will continue to have an impact on the financial sustainability of Forest Enterprise Scotland. Although exchange rates have been favourable for domestic timber trading, the impact of Brexit on the UK's timber industry is still largely unknown.</p> <p>Should there be a significant downturn in the prevailing economic conditions continuing over an extended period this may present challenges for the financial sustainability of FES.</p>	<p>Development of long-term financial strategy/ plan.</p> <p>Agreement of reserves strategy with Scottish Ministers.</p>	<ul style="list-style-type: none"> • Monitoring of monthly finance reports. • Monitor impact of economic conditions on timber income in the UK. • Review progress of long-term financial strategy and plan. • Review of preparedness for Brexit. • Monitor progress towards finalisation of reserves strategy.
6	<p>Governance and transparency</p> <p>Forest Enterprise Scotland will transition to Forestry and Land Scotland on 1 April 2019.</p> <p>Alongside this significant organisational change, FES has also taken over the responsibility for providing key services that were previously administered by Forestry Commission Great Britain; including Payroll and Digital Services.</p> <p>Until the new structures and processes settle, there remain a number of risks. These include:</p> <ul style="list-style-type: none"> • loss of key staff and knowledge 	<p>Internal Communications Manager to ensure effective communication to staff.</p> <p>Corporate Services Programme Board monitors progress.</p> <p>Implementation plans are under development for Finance & Digital services projects to ensure transfer of knowledge and continuity of services.</p> <p>Change Manager to ensure project co-</p>	<ul style="list-style-type: none"> • Monitor progress of organisational change programmes and transition to Agency. • Review procedures for maintaining the register of interests. • Monitor progress on testing plans for business continuity and review progress on implementing General Data Protection Regulation. • Review of data transfer from forestry systems to Scottish Government servers.

	Audit Risk	Source of assurance	Planned audit work
	<ul style="list-style-type: none"> the effectiveness of internal controls in a period of change may be impacted governance arrangements need to be maintained, including the review and update of the register of interests and risk register the challenge of continuing to provide key services alongside managing the change programme the transfer and continuity of key ICT systems is essential. 	<p>ordination and effective transition.</p> <p>Progress monitored by Scottish Government Forestry Devolution Programme Board.</p>	<ul style="list-style-type: none"> Monitor progress of transition of shared services to FES.

Source: Audit Scotland

Reporting arrangements

6. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

7. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

8. We will provide an independent auditor's report to Forest Enterprise Scotland, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	28 February 2019	13 March 2019
Management Report	31 May 2019	8 August 2019
Annual Audit Report	23 July 2019	8 August 2019
Independent Auditor's Report	August 2019	n/a

Source: Audit Scotland

Audit fee

9. The agreed audit fee for the 2018/19 audit of Forest Enterprise Scotland is £65,800 (The 2017/18 audit fee consisted of the original agreed fee of £62,500 plus an additional fee of £5,000). In determining the audit fee, we have taken account of the risk exposure of Forest Enterprise Scotland, the planned management assurances in place and the level of reliance we plan to take from the

work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 31 May 2019.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

11. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

12. The audit of the financial statements does not relieve management or the Audit and Risk Committee as those charged with governance, of their responsibilities.

Appointed auditor

13. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

14. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual report and accounts

15. The annual report and accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Forest Enterprise Scotland and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Forest Enterprise Scotland will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

16. We will give an opinion on whether the financial statements:

- give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.



characteristics



responsibilities



principal activities



risks



governance arrangements

Other information in the annual accounts

17. We also review and report on other information published within the annual accounts including the performance report; corporate governance report; remuneration and staff report; and the parliamentary accountability report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

18. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

19. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

20. We calculate materiality at different levels as described below. The calculated materiality values for Forest Enterprise Scotland are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of the total net book value of biological assets, land and the forest estate, per the 2017/18 audited accounts.	£22.3 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£13.4 million
As the value of Forest Enterprise Scotland's biological assets, land and the forest estate is significantly higher than other account areas, we have set a separate performance materiality level for other assets and liabilities, income and expenditure. This has been set at 75% of 2% of net expenditure before gain or loss on biological assets and will be applied to all account areas other than biological assets, land and the forest estate.	£940,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. For biological assets, land and the forest estate, this has been calculated at 1% of planning materiality, capped at £100,000.	£100,000

Source: Audit Scotland

21. We have reviewed our approach to calculating materiality for the 2018/19 audit of Forest Enterprise Scotland, to better recognise the relative significance of the carrying value of certain non-current assets (biological assets, land and the forest estate) and the other transactions and balances within the financial statements

Timetable

22. To support the efficient use of resources it is critical that the financial statements timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	By 31 May 2019
Latest date for final clearance meeting with senior finance manager and head of finance and procurement	w/c 15 July 2019
Agreement of audited unsigned annual accounts	w/c 22 July 2019
Issue of Annual Audit Report including ISA260 report to those charged with governance	
Independent auditor's report signed	August 2019

Key stage

Date

Latest date for signing of WGA return

September 2019

Internal audit

23. Internal audit is provided by the Scottish Government Internal Audit Directorate. Audit Scotland's Scottish Government audit team plans to carry out a review of the effectiveness of the internal audit function to ensure it operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. We plan to place reliance on that work.

Using the work of internal audit

24. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work undertaken by internal audit.

Audit dimensions

25. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in Exhibit 5.

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

Financial sustainability

26. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. Over the period of our audit appointment, we shall consider:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

- whether Forest Enterprise Scotland can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

27. As part of our 2018/19 audit work, we will consider Forest Enterprise Scotland's response to EU withdrawal, including any impact on workforce planning.

Financial management

28. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. Over the period of our audit appointment, we shall consider:

- whether Forest Enterprise Scotland has arrangements in place to ensure systems of internal control are operating effectively
- whether Forest Enterprise Scotland can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how Forest Enterprise Scotland has assured itself that its financial capacity and skills are appropriate
- whether Forest Enterprise Scotland has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

29. As part of our 2018/19 review we shall consider whether Forest Enterprise Scotland has any dependency on key suppliers. The collapse of Carillion has brought into focus the risk of key supplier failure and the risk of under-performance in suppliers that are experiencing difficult trading conditions.

Governance and transparency

30. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. Over the period of our audit appointment, we shall consider:

- whether Forest Enterprise Scotland can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

31. As part of our 2018/19 audit, we will assess Forest Enterprise Scotland's progress towards reviewing the data matches identified through the National Fraud Initiative.

Value for money

32. Value for money refers to using resources effectively and continually improving services. Over the period of our audit appointment, we shall consider:

- Forest Enterprise Scotland can provide evidence that it is demonstrating value for money in the use of its resources
- Forest Enterprise Scotland can demonstrate that there is a clear link between money spent, output and outcomes delivered
- Forest Enterprise Scotland can demonstrate that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Independence and objectivity

33. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

34. The engagement lead (i.e. appointed auditor) for Forest Enterprise Scotland is Mark Taylor, Audit Director. Auditing and ethical standards require the appointed auditor, Mark Taylor, to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Forest Enterprise Scotland.

Quality control

35. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

36. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

37. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Forest Enterprise Scotland

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If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

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