

Forestry Commission Scotland

2018/19 Annual Audit Report



 AUDIT SCOTLAND

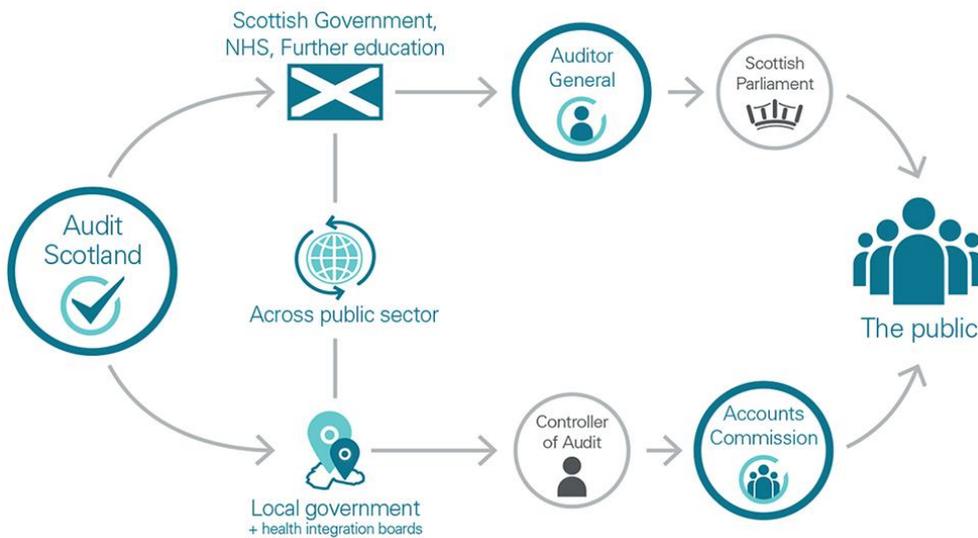
Prepared for Forestry Commission Scotland and the Auditor General for Scotland

12 August 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.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2018/19 annual report and accounts	8
Part 2 Financial management	12
Part 3 Financial sustainability	16
Part 4 Governance and transparency	18
Part 5 Value for money	23
Appendix 1 Action plan 2018/19	26
Appendix 2 Significant audit risks identified during planning	30
Appendix 3 Summary of national performance reports 2018/19	33

Key messages

2018/19 annual report and accounts

- 1 The financial statements of Forestry Commission Scotland give a true and fair view of the financial position and its net operating expenditure.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 3 The other information in the annual report and accounts is consistent with the financial statements and prepared in accordance with legal requirements.

Financial management

- 4 Forestry Commission Scotland had appropriate and effective arrangements in place for financial management, remaining within its overall resource budget for 2018/19.
- 5 Some weaknesses were identified in the system of internal control. However no significant control weaknesses were identified which could affect the organisation's ability to record, process, summarise and report financial and other relevant data.

Financial sustainability

- 6 Forestry Commission Scotland deferred the development of longer-term financial planning. A three-year corporate plan is being developed by Scottish Forestry and financial planning should be aligned with the corporate plan.
- 7 There are no specific concerns about the overall financial position of Forestry Commission Scotland.

Governance and transparency

- 8 Forestry Commission Scotland had appropriate governance arrangements in place that supported scrutiny of decisions.
- 9 Forestry Commission Scotland continued to improve the disclosures in its annual report. Openness and transparency could be further improved by extending the availability of papers and minutes.
- 10 Forestry Commission Scotland transitioned to Scottish Forestry on 1 April 2019 with the majority of 'day one' priorities delivered by this date.

Value for money

- 11 Forestry Commission Scotland had overall arrangements in place which helped support performance management.
- 12 There is scope to build on existing approaches to managing and publicly reporting organisational performance and demonstrating the contribution this makes to the Scottish Government's outcomes.

Introduction

1. The Forestry and Land Management (Scotland) Act received Royal Assent on 1 May 2018. As a result of the Act, Forestry Commission Scotland was replaced by Scottish Forestry, an executive agency of the Scottish Government, from 1 April 2019.

2. As such, the 2018/19 annual report and accounts will be the last set of financial statements prepared for Forestry Commission Scotland, and this will be the final annual audit report issued to Forestry Commission Scotland.

3. All activities, assets and liabilities were transferred from Forestry Commission Scotland to Scottish Forestry on 1 April. Therefore, the adoption of the going concern basis of accounting for the 2018/19 Forestry Commission Scotland financial statements is appropriate.

4. This report summarises the findings from our 2018/19 audit of Forestry Commission Scotland.

5. The scope of our audit was set out in our Annual Audit Plan presented to the March 2019 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of Forestry Commission Scotland's annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



6. The main elements of our audit work in 2018/19 have been:

- a review of the main financial systems
- an audit of the 2018/19 annual report and accounts including the issue of an independent auditor's report setting out my opinions
- consideration of the four dimensions of public audit.

Adding value through the audit

7. We add value to Forestry Commission Scotland through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- Providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

8. In so doing, we aim to help promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

9. Forestry Commission Scotland had primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. The annual report and accounts includes the following:

- performance report
- accountability report (which includes the corporate governance report, remuneration and staff report and parliamentary and accountability report)
- financial statements and supporting notes.

10. Forestry Commission Scotland was also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK.

12. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements,
- the financial position and arrangements for securing financial sustainability.

13. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

14. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

15. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

16. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £40,000 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

17. This report is addressed to both Forestry Commission Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

18. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual report and accounts



Main judgements

The financial statements of Forestry Commission Scotland give a true and fair view of the financial position and its net operating expenditure.

The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

The other information in the annual report and accounts is consistent with the financial statements and prepared in accordance with legal requirements.

Audit opinions on the annual report and accounts

19. The Audit and Risk Committee agreed on 8 August 2019 that the annual report and accounts for the year ended 31 March 2019 should be passed to the Accountable Officer for signing. The Accountable Officer then approved the annual report and accounts on 8 August 2019. We reported within the independent auditor's report that:

- 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 issued by Scottish Ministers
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

20. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Submission of annual report and accounts for audit

21. We received the unaudited annual report and accounts on 23 May 2019, in line with our agreed audit timetable.

22. The working papers provided with the unaudited financial statements were generally of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

23. Our audit identified a number of presentational and disclosure issues in the unaudited financial statements, in particular within the performance report and governance statement. These were discussed with finance staff and subsequently amended in the audited financial statements. We discussed with management the need for an overall review of the quality of the draft annual report and accounts prior to submission for audit and highlighted a number of areas which should be reviewed and updated where appropriate; these included accounting policies,

accounting for non-current assets and disclosure notes. Management advised that the format and overall quality of the annual accounts will be reviewed as part of the progression of Scottish Forestry.

Risk of material misstatement

24. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

25. We have no issues to report from our work on the risks of material misstatement highlighted in our [2018/19 Annual Audit Plan](#).

Materiality

26. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

27. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

28. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and updated these to reflect the reported outturn at 31 March 2019, as shown in [Exhibit 2](#) below. The revised materiality levels are not significantly different to those calculated at the planning stage.

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality – this is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1.5% of gross expenditure for the year ended 31 March 2019.	£1.33 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 75% of overall materiality.	£1.00 million
Reporting threshold – We are required to report to those charged with governance on unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of overall materiality.	£65,000

Source: Forestry Commission Scotland Annual Report and Accounts 2018-19, Audit Scotland.

How we evaluate misstatements

29. There were no material adjustments to the unaudited annual report and accounts arising from our audit. A number of presentational adjustments were identified and discussed with management, who agreed to amend the financial

statements. There are no unadjusted misstatements and we did not identify any monetary errors above our reporting threshold.

Significant findings from the audit in accordance with ISA 260

30. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

31. The significant findings are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included. Given the transfer of functions to Scottish Forestry, these recommendations are made to the incoming organisation.

Qualitative aspects of the audit

32. Qualitative aspects of the audit include our consideration of accounting policies, significant disclosures, or misstatements.

33. As discussed at paragraph 23 above, we identified scope for improvement within the presentation of the annual report and accounts. We did not identify any significant findings to report in respect of the qualitative aspects of the annual accounts.

Exhibit 3 Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Year-end bank reconciliation</p> <p>At the time of our audit, management were unable to provide evidence of the unreconciled items in the year-end bank reconciliation having been fully reviewed, or a listing of the £560,000 unreconciled items.</p>	<p>We subsequently obtained a listing of reconciling items and evidence of management's review and follow up. We selected a sample of these reconciling items and are satisfied that they were valid.</p> <p>Going forward, management should ensure that all reconciling items are reviewed, and a clear audit trail is retained.</p> <p> Recommendation 1 - Appendix 1</p>
<p>2. EU income – grants</p> <p>The 2018/19 financial statements disclose current trade and other receivables of £16.8m, of which £16.0m (95%) relates to accrued income for EU funding (£15.1m 2017/18).</p> <p>The accrual represents committed grant funding to be received in respect of projects related to woodland creation. All forestry payments are made by the Scottish Government's Rural Payments and Inspections Division (RPID). They are the accredited paying agency in Scotland for all European Commission Common Agricultural (CAP) grants.</p> <p>Management expect this to be fully repaid and advised that there are currently no identified</p>	<p>We considered the work of internal audit on EU grant schemes, as discussed at paragraph 50 below. A limited assurance opinion was provided on the two audits carried out.</p> <p>As a consequence, we tested a sample of grant income and expenditure and concluded that the amounts accrued appeared reasonable. We did not identify any issues, and all grant payments tested could be agreed to original claims and were found to have been processed correctly.</p> <p>We have requested that the Accountable Officer provides assurances that the accruals for EU income are fairly stated.</p> <p> Recommendation 2 – Appendix 1</p>

Issue	Resolution
<p>potential EU disallowances arising from recent EU audits.</p> <p>The performance report and governance statement included within the annual report and accounts refers to the risk of grant disallowance and refers to new processes that are in place to ensure compliance with EU regulations.</p>	
<p>Source: Audit Scotland</p>	

Other Findings

34. We have highlighted below a number of other matters identified during our audit.

Future financial commitments

35. Note 18 in the annual accounts records Forestry Commission's Scotland's financial commitments to the payment of future instalments under a range of EU funded programmes. These commitments total £86.6m and include:

- Scottish Rural Development Plan 2007 – 2013 (woodland creation and replanting): £21.4m
- Scottish Rural Development Plan 2014 – 2020 (forestry grants for woodland creation and replanting): £65.2m

Cash and cash equivalents

36. The statement of financial position discloses a year-end cash balance of £28.4m, an increase of £7.8m from the prior year. The increase reflects funding drawn down in respect of the locally funded element of the Forestry Grant Scheme, which had not yet been paid out to grant claimants and reflects the increased activity in this area. Amounts payable had been appropriately recognised as expenditure.

Follow up of prior year recommendations

37. Forestry Commission Scotland has made limited progress in implementing our prior year audit recommendations in the final year of the operation of Forestry Commission Scotland. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

Forestry Commission Scotland had appropriate and effective arrangements in place for financial management, remaining within its overall resource budget for 2018/19.

Some weaknesses were identified in the system of internal control. However no significant control weaknesses were identified which could affect the organisation's ability to record, process, summarise and report financial and other relevant data.

Financial performance in 2018/19

38. The main financial objective for Forestry Commission Scotland was to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

39. Forestry Commission Scotland has reported net operating expenditure of £68.4m, remaining within its overall budget for 2018/19 with an underspend of £0.8m. This was largely due to underspends in forestry development programmes and plant health funding where there were a number of unsubmitted claims and payments were made which were lower than the original claim value. The financial performance against funding is shown in [Exhibit 4](#).

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Exhibit 4 Performance against funding in 2018/19

Performance	Initial budget £m	Final budget £m	Outturn £m	Over / (under) spend £m
Resource Departmental Expenditure Limit (DEL)	61.800	67.000	66.254	(0.746)
Capital DEL	1.900	1.900	1.900	-
Total DEL	63.700	68.900	68.154	(0.746)
Annually Managed Expenditure (AME)		0.325	0.289	(0.036)
Total allocation	63.700	69.225	68.443	(0.782)

Source: Forestry Commission Scotland's Annual Report and Accounts 2018/19; Spring Budget Revision 2018/19

40. Funding for Forestry Commission Scotland includes a subsidy agreed by the Scottish Government for Forest Enterprise Scotland who manages the forest

estate. During the 2018/19 spring budget revision the Scottish Government reduced the budget for Forest Enterprise Scotland to £15m (2017/18 £22.6m), and approved additional funding for Forestry Commission Scotland of £5m for increased woodlands projects.

2018/19 financial position

41. The Statement of Financial Position summarises what is owned and owed by Forestry Commission Scotland. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit.

42. The financial statements show that Forestry Commission Scotland had net liabilities of £3.2m, an increase of £0.7m from 2017/18. This position is largely as a result of the low baseline value of property, plant and equipment. This is not considered an issue in relation to the going concern of the organisation, as all funding is received from the Scottish Government on an ongoing basis.

43. The financial statements show net assets of £3.2m, an increase of £0.7m which is largely attributable to increased trade payables in respect of planting schemes offset by an increase in cash to fund these same schemes.

Budgetary processes

44. We reviewed Forestry Commission Scotland's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.

45. We concluded that Forestry Commission Scotland had effective budgetary processes that allow members and officers to carry out effective scrutiny of its finances.

Systems of internal control

46. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that Forestry Commission Scotland has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

47. Our findings from the review of systems of internal controls were included in a management report presented to the August 2019 Audit and Risk Committee. We identified control weaknesses in relation to the authorisation of journals and changes to supplier bank details. The impact of the organisational change programme, staff departures and retention of information following server transfer, has resulted in Forestry staff being unable to provide evidence that quarterly payroll validation checks, procedures to ensure appropriate ICT access and controls over changes to standing data were in operation during 2018/19. The findings from our review of internal controls informed our year-end substantive testing.

48. Overall, we concluded that whilst there were weaknesses identified in the system of internal control, no significant control weaknesses were identified which could affect Forestry Commission Scotland's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Internal audit

49. Forestry Commission Scotland's internal audit function is carried out by the Scottish Government Internal Audit Division. The Public Sector Internal Audit Standards (PSIAS) require the "chief audit executive" to provide an annual internal

audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2018/19 is that of 'limited assurance' which is defined as 'weaknesses in the current risk, governance and/or control procedures that either do, or could, affect the delivery of any relate objectives. Exposure to the weaknesses identified is moderate and being mitigated.'

50. We reviewed Forestry Commission Scotland's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could use the work of internal audit. We considered the work of internal audit in the following areas for our 2018/19 financial statements and wider dimensions audit responsibilities:

- EU Forestry Grant Scheme, Inspections
- EU Forestry Grant Scheme, Breaches and Penalties.

Standards of conduct for prevention and detection of fraud and error

51. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

52. We have reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

53. Based on our review, we have concluded that Forestry Commission Scotland had appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

54. Forestry Commission Scotland's register of interests was previously maintained by the Forestry Commission and held on their website. Following devolution, the register of interests is no longer available on this website. Scottish Forestry has assumed responsibility for maintaining and updating the register, which will be made available on the Scottish Forestry website in due course. Copies of the register are available for public inspection at the Scottish Forestry head office.

National Fraud Initiative

55. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity. Forestry Commission Scotland and Forest Enterprise Scotland participate jointly in the NFI exercise.

56. Participating bodies were required to submit data in October 2018 and submitted matches were provided for investigation in January 2019. It is expected that all recommended matches are investigated with further matches investigated based on findings, and the risk of fraud or error. Match investigation work should be largely complete by 30 September 2019, with results recorded on the NFI system.

57. The NFI exercise identified 1,387 matches for investigation by Forestry Commission Scotland and Forest Enterprise Scotland. At the time of our review in June 2019, work was ongoing to investigate the matches received. We were advised that no frauds or errors had been identified at this point. Management have been carrying out their review offline, and the outcomes from investigations have not yet been updated on the NFI system.

58. Management should continue to progress the review of NFI matches and ensure that all required information and outcomes has been updated on the NFI system by 30 September 2019.

59. Our [2017/18 Annual Audit Report](#) recommended that the Audit and Risk Committee review the NFI self-appraisal checklist. This will ensure that members are fully informed of their organisation's planning and progress in the NFI exercise. Management advised that a review of the self-appraisal checklist would be undertaken and presented to the Audit and Risk Committee thereafter. We note that the self-appraisal checklist was presented to the August 2019 committee.



Recommendation 3

The review of the recommended matches should be progressed. The Audit and Assurance Committee of Scottish Forestry should be provided with the self-appraisal checklist in order to be informed of the NFI process.

[Appendix 1, Recommendation 3](#)

Dependency on key suppliers

60. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

61. We have considered the suppliers used by Forestry Commission Scotland and have concluded that whilst there is no significant risk associated with dependency on a key supplier, a potential risk does exist in relation to IT system suppliers.

62. In recognition of the change to Scottish Forestry, management should continue to review the nature and extent of suppliers used and ensure mitigating business continuity arrangements are in place in order to appropriately respond to the risk of failure of any key suppliers used.

ICT controls

63. Our ICT audit work reviewed the data transfer of some systems to Scottish Government servers; and assessed the cyber security and disaster recovery arrangements within Forestry Commission Scotland. The testing we carried out on systems transfer was concluded as satisfactory. We concluded that cyber security and disaster recovery arrangements were in place during 2018/19, however at the time of our review, we noted that a data security policy, business continuity plan and disaster recovery plan had not yet been developed for Scottish Forestry. Further detail on our ICT audit work has been reported in our 2018/19 management report.

Part 3

Financial sustainability



Main judgements

Forestry Commission Scotland deferred the development of longer-term financial planning. A three-year corporate plan is being developed by Scottish Forestry and financial planning should be aligned with the corporate plan.

There are no specific concerns about the overall financial position of Forestry Commission Scotland.

2018/19 financial position

64. As discussed at paragraphs 41 and 42 above, Forestry Commission Scotland's 2018/19 financial statements show net liabilities, as a result of low baseline values of non-current assets. We do not consider there to be any issues in respect of going concern, given that all funding is received from the Scottish Government.

Financial planning

65. The funding provided is to enable Scottish Forestry to deliver the Scottish Government's forestry functions which includes forestry policy, promotion of sustainable forest management and delivery of the Scottish Government's forestry targets and forestry regulation.

66. The draft budget for Scottish Forestry for 2019/20 has been set at £43.2m. This is a reduction from the 2018/19 budget of £69.2m to reflect the change in funding arrangements arising from the creation of the two successor organisations, Scottish Forestry and Forestry and Land Scotland (previously Forest Enterprise Scotland). In previous years, funding for Forest Enterprise Scotland was included in the Forestry Commission Scotland grant funding. From 1 April 2019, Forestry and Land Scotland will receive budget allocation directly from the Scottish Government.

67. Longer term financial planning was deferred by Forestry Commission Scotland in advance of the transition to Scottish Forestry. We previously reported on the absence of any longer-term financial plans, recognising the organisational change and competing work demands prior to the establishment of Scottish Forestry. We acknowledge that the absence of multi-year spending plans further impacts on the development of longer-term financial planning. Management should now ensure that a longer-term financial strategy is developed for Scottish Forestry, supported by clear and detailed financial plans. This should align with the Scottish Forestry corporate plan, which is discussed further at paragraph 95 below.

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.



Recommendation 4

A longer-term financial strategy should be developed for Scottish Forestry, supported by clear and detailed financial plans. Financial planning should align with the Scottish Forestry corporate plan.

[Appendix 1, Recommendation 4](#)

Changing landscape for public financial management and medium to long term financial planning

68. Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

69. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

EU Withdrawal

70. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

71. EU membership impacts on Scotland's forestry activity in several areas, with the EU Forest Strategy, several directives and conventions all impacting on Scottish Forestry. As noted in the 2018/19 Performance Report, the full impact of UK's exit from the EU on the forestry sector in Scotland is a key risk.

72. The impact of EU withdrawal was incorporated into Forestry Commission Scotland's business: for example, the risk register includes reference to withdrawal across a range of risks, with actions to mitigate the risk including engagement with the Scottish Government on EU withdrawal processes and communication with the wider forestry sector.

73. We considered Forestry Commission Scotland's preparedness for EU withdrawal, with focus on the three key areas outlined above. We concluded that, given the level of uncertainty surrounding EU withdrawal, Forestry Commission Scotland has taken reasonable action to prepare for the impact of withdrawal.

Part 4

Governance and transparency



Main judgements

Forestry Commission Scotland had appropriate governance arrangements in place that supported scrutiny of decisions.

Forestry Commission Scotland continued to improve the disclosures in its annual report. Openness and transparency could be further improved by extending the availability of papers and minutes.

Forestry Commission Scotland transitioned to Scottish Forestry on 1 April 2019 with the majority of 'day one' priorities delivered by this date.

Governance arrangements

74. The governance arrangements in place in 2018/19 were complex, reflecting the cross-border arrangements for the management of the forest estate. The Forestry Commission has a chair and a board of commissioners who are responsible for the stewardship of the UK national forest estate. Certain duties were delegated to the National Committee for Scotland by the commissioners. The National Committee was established to help formulate advice to Ministers on the strategic direction of forestry in Scotland and to help ensure that the Ministers' policies are carried out efficiently and effectively.

75. In 2018/19, the National Committee for Scotland comprised the Head of Forestry Commission Scotland, the Forest Enterprise Scotland Chief Executive, the Forestry Commission Scotland and Forest Enterprise Scotland Heads of Corporate Services and four non-executive members.

76. The Forestry Commission Scotland Executive Team (formerly the Management Board) was the senior management monitoring and decision-making forum in place in 2018/19, with members demonstrating commitment to their roles and responsibilities. At 31 March 2019, the Executive Team consisted of the Head of Forestry Commission Scotland and five heads of service. There were seven meetings in 2018/19, where a range of areas and issues were discussed including finance and governance.

77. The National Committee for Scotland established an Audit and Risk Committee to support it in its responsibilities for the effective management of risk, control and governance. The committee operated across both Forestry Commission Scotland and Forest Enterprise Scotland until 31 March 2019. A final meeting will take place in August 2019 in for members to approve the 2018/19 annual report and accounts.

78. We attend all Audit and Risk Committee meetings where agendas follow a standard format and are circulated to members in advance, allowing adequate time for members to review. Based on our attendance at Audit and Risk Committee meetings, we can confirm that there was an appropriate level of scrutiny of submitted reports.

79. Forestry Commission Scotland maintained its own risk registers, overseen by the Audit and Risk Committee. We have concluded that, overall, Forestry

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.

Commission Scotland had appropriate arrangements in place to support good governance, accountability and scrutiny. The governance arrangements in place supported effective working relationships between senior management, chief officers, non-executives and commissioners.

Governance Statement

80. HM Treasury's Financial Reporting Manual (the FReM) requires the inclusion of a governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives.

81. The SPFM does not provide a format for the annual governance statement but sets out minimum requirements for central government bodies. We note that assurances are sought from Forestry Commission Scotland Conservators and Heads of Service to assist the accountable officer in fulfilling her responsibilities. Conservators complete and return a checklist which summarise the control processes in place during the year. Heads of Service do not complete a checklist; instead they refer to a list of control processes which then provide the basis for their assurance. The SPFM provides a checklist, which was updated in 2019, and which could be adapted and applied by Scottish Forestry Executive Team members. This would provide closer alignment to the format used by Scottish executive agencies.



Recommendation 5

The example assurance checklist provided in the SPFM should be reviewed and applied to Scottish Forestry. This will provide better alignment to the process applied by the Scottish Government and will provide a more complete of the internal control process in operation.

[Appendix 1, Recommendation 5](#)

Forestry and Land Management (Scotland) Act

82. The Forestry and Land Management (Scotland) Act received Royal Assent on 1 May 2018. The act provides a legislative framework to develop, support and regulate forestry in Scotland, including a requirement for a Scottish forestry strategy and a duty to promote sustainable forest management. As a result of the Act, Forestry Commission Scotland was replaced by Scottish Forestry on 1 April 2019.

83. A significant amount of work has been undertaken, and remains ongoing, in respect of transition to Scottish Forestry, and management have acknowledged the challenges involved.

Scottish Forestry

84. Ongoing discussions were held with management throughout 2018/19 to monitor progress towards transition to Scottish Forestry on 1 April 2019. Key priorities in advance of transition were ensuring that key individuals were in post and that there had been sufficient communication with staff and stakeholders.

85. Regular meetings of the Scottish Forestry Project Board and Scottish Government Devolution Programme took place throughout 2018/19 in order to monitor progress towards transition. We have reviewed the minutes of these meetings and have no issues to report. The majority of 'day one' priorities were delivered by 1 April 2019. Management continued to progress the outstanding tasks, with all 'day one' deliverables completed by the end of May 2019.

86. A project close and lessons learned paper was prepared for the Scottish Forestry Project Board in June 2019. This paper outlined the achievements to date, and the plans for carrying forward and concluding outstanding tasks. Lessons learned were also considered.

87. There were several outstanding tasks identified. These included the finalisation of memorandums of understanding in respect of office accommodation. Other tasks, such as developing business and corporate planning and determining the financial system used will be incorporated within 'business as usual' as Scottish Forestry moves forward.

88. A significant part of the transition process involved moving from the eFinancials ledger system used by Forestry Commission Scotland, to the Scottish Government finance system, SEAS. The transfer to SEAS was initially planned for 1 April 2019, when Scottish Forestry was formally established. This process has been delayed due to Scottish Government capacity issues and Scottish Forestry are currently considering the options available to them. In 2019/20, Scottish Forestry continue to use the eFinancials system which is hosted by Forestry and Land Scotland.

Governance arrangements

89. New governance arrangements are being implemented. These include the establishment of an Audit and Assurance Committee, a Senior Executive Team and a Strategic Advisory Group.

90. The first meeting of the Audit and Assurance Committee is expected to take place in autumn 2019. Their role is to support the Chief Executive by providing advice and constructive challenge, providing support in relation to risk management, control, governance and associated assurance as well as supporting year-end accountability and reporting. Three new non-executive members have been appointed and have undergone an induction programme which included a workshop on effective risk management.

91. The role of the Senior Executive Team is to lead Scottish Forestry and oversee day to day management and direction of the agency and provide information, advice and guidance to the Chief Executive on key corporate matters and decisions.

92. The Strategic Advisory Group is comprised of the three non-executive directors and all function heads. Their role is to support and provide advice to the Chief Executive.

Corporate and business planning

93. Due to the transition project, there has been no Forestry Commission Scotland corporate plan prepared since 2015. Business planning updates were provided regularly to the National Committee for Scotland. These updates provided an overview of progress against key targets and priorities and financial performance along with updates on significant issues and trends.

94. Scottish Forestry's framework document was finalised in April 2019. It covers matters including governance, key roles and responsibilities, financial arrangements and corporate and business planning. It is publicly available on the Scottish Forestry website.

95. As part of the corporate planning process, a corporate plan was due to be finalised by October 2019. Work is underway to develop the corporate plan, which will undergo public consultation in due course. The plan will set out Scottish Forestry's vision and mission, outcomes and targets, performance indicators and will give an overview of how Scottish Forestry will deliver these. The plan will cover the period 2020 – 2023.

96. In the absence of a corporate plan, there is a risk of lack of clarity about roles, responsibilities and accountabilities as the new arrangements develop and a risk that this impacts on Scottish Forestry's effectiveness.

97. A 2019/20 annual business plan was finalised in July 2019 and is an interim document pending the development of the corporate plan. Going forward, the annual business plan will align with the corporate plan.



Recommendation 6

Management should continue to progress work already underway to develop the Scottish Forestry corporate plan. The corporate plan should be supported by an annual business plan.

[Appendix 1, Recommendation 6](#)

Openness and transparency

98. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the organisation is taking decisions and how it is using resources such as money, people and assets.

99. We reported in 2017/18 that the minutes of the Forestry Commission Scotland Management Board, National Committee for Scotland and Scottish Executive Board were publicly available on the Forestry Commission Scotland website. Audit and Risk Committee minutes are not publicly available, and all board and committee meetings were held in private.

100. As part of the transition to Scottish Forestry, management should consider the openness and transparency of the organisation against best practice and the Scottish Government's values of Open Government which aim to foster openness, transparency and citizen participation. Openness and transparency could be improved by extending the availability of meeting agendas and papers to the public with confidential information withdrawn or redacted as appropriate.

101. We have discussed in Part 5 of this report further improvements through the introduction of specific and measurable performance targets leading to some trend analysis. It is anticipated that with the introduction of specific and measurable targets for Scottish Forestry more transparency will be achieved in the annual report and accounts.

General Data Protection Regulation

102. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act (DPA) 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts. Failure to comply with new GDPR data handling arrangements could result in Scottish Forestry incurring significant fines.

103. In 2018/19, the Senior Information Risk Owners of Forestry Commission Scotland, Forest Enterprise Scotland and the Forestry Commission's Information Security Management Forum co-ordinated the approach to information risk management. The forum ceased to operate on 31 March 2019, as new arrangements came into place with the establishment of Scottish Forestry.

104. Scottish Forestry intend to sign a memorandum of understanding with the Scottish Government which will formalise the approach taken to data protection, and thereafter appropriate resources will be put in place in order to meet the requirements of the regulations.

105. Scottish Forestry are engaging with internal audit in respect of advisory work on compliance with the GDPR.

Part 5

Value for money



Main judgements

Forestry Commission Scotland had overall arrangements in place which help support performance management.

There is scope to build on existing approaches to managing and publicly reporting organisational performance and demonstrating the contribution this makes to the Scottish Government's outcomes.

Best value

106. Value for money is a key element of our audit approach. In 2018/19, we did not identify any significant value for money risks during our audit planning for Forestry Commission Scotland, and therefore did not undertake any specific value for money work. We will continue to keep this area under review over our period of appointment as external auditors of Scottish Forestry and will report as appropriate.

107. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. Compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement. Achieving and demonstrating continuous improvement in performance and outcomes is a core requirement for all public bodies.

108. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. The Scottish Forestry framework document includes a section on best value and outlines that the Chief Executive should ensure that there is good governance and effective management of resources, with a focus on improvement, in order to deliver the best possible outcomes.

109. As part of ensuring best value Scottish Forestry will keep the provision of support services under review. This includes making use of shared service arrangements where greater value for money can be realised. A service level agreement (SLA) is in place between Scottish Forestry and Forestry and Land Scotland. Under this SLA, Forestry and Land Scotland will provide a range of shared services to Scottish Forestry, including:

- Human resources
- Digital services
- Fleet management
- Building services.

110. The Scottish Forestry framework agreement requires the Accountable Officer to report annually, within the annual report and accounts, the steps taken during each financial year to improve efficiency, effectiveness and economy.

Value for money is concerned with using resources effectively and continually improving services.

Performance management

111. The National Committee members agreed Forestry Commission Scotland's priorities on an annual basis, together with the Head of Forestry Commission Scotland. For 2018/19, five priorities were identified. Progress and activity were monitored by the National Committee.

112. Performance against each of these priorities is reported in Forestry Commission Scotland's 2018/19 annual report and accounts and progress has been made in relation to all the priorities. Of particular note is the achievement for the first time this century of woodland creation targets.

113. We concluded that Forestry Commission Scotland had overall arrangements in place which support performance management.

114. These priorities are aligned to the Scottish Forestry Strategy which was published by Scottish Ministers in October 2006 and links into the Scottish Government's programme for government.

115. Scotland's Forestry Strategy 2019-2029 was published in February 2019 and sets out a 50-year vision for forestry in Scotland. Six priority areas for action over the next ten years have been identified:

- Sustainable forest management
- Resilience of forests
- Woodland creation
- Environmental benefit
- Economic benefit
- Engaging people, communities and businesses.

116. Work is ongoing to publish an implementation plan demonstrating how the vision, objectives and priorities are being taken forward and how performance against these will be measured. Scottish Forestry are leading on this piece of work for Scottish Ministers and it will be a key priority for 2019/20.

Performance report

117. In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of the performance report included in the annual report and accounts. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of a body's performance and, is essential in helping stakeholders understand the financial statements. The performance report is therefore an opportunity for the organisation to 'tell its story' and enhance openness and transparency.

118. There are a number of characteristics of financial reporting which make for a high-quality performance report. Audit Scotland published a [Good Practice Note](#) on performance reports in February 2019. This was shared with management in advance of the year-end audit.

119. We concluded that Forestry Commission Scotland's performance report met the requirements of the FReM but that improvements could be made to the narrative to provide a more rounded picture of what has been achieved during the year linked into the funding provided. We considered that the report could be further developed to provide a more accessible overall assessment of whether priorities are being delivered and aims are being achieved, and the contributions

being made to outcomes as a result. Presentation would also be enhanced by introducing relevant diagrams and tables and by linking better the individual sections.

120. Public bodies are required to identify and report performance measures to demonstrate their effectiveness and efficiency in service delivery and the benefits they provide to the public. Forestry Commission Scotland's performance report provides a range of information covering the activities of the organisation.

121. The Finance & Constitution Committee and the Scottish Government established a Budget Process Review Group to carry out a fundamental review of the Scottish Parliament's budget process. The Group recommended that public bodies strengthen their performance planning and reporting to provide a greater focus on the delivery of outcomes.

122. Scottish Forestry will be expected to take an 'outcomes based approach' to corporate and business planning, and effectively demonstrate their contribution to the delivery of the government's Purpose and National Outcomes, as set out in the National Performance Framework. As noted above, work is progressing in this area.



Recommendation 7

Scottish Forestry should review the content and presentation of its performance report to ensure it takes full advantage of the opportunity to communicate how it has applied the funding it receives and what was achieved. Scottish Forestry should provide an assessment of its contribution to the Scottish Government outcomes.

[Appendix 1, Recommendation 7](#)

National performance audit reports

123. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 several reports were published, some of which were of direct interest to forestry Commission Scotland. These are outlined in [Appendix 3](#).

124. We provided regular progress reports and updates to the Audit and Risk Committee where we refer to national performance audit reports which may be of interest to members. We shall provide these updates to the Scottish Forestry Audit and Assurance Committee from 2019/20 onwards.

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Year-end bank reconciliations</p> <p>Management were unable to provide a listing of the £560,000 unreconciled items included in the year-end bank reconciliation.</p> <p>A retrospective review was undertaken, and we were subsequently provided with evidence of the reconciling items and follow up of these.</p> <p>Risk: There is a risk that reconciling items are not investigated and followed up appropriately, leading to discrepancies between the bank balance and the financial ledger.</p>	<p>Management should ensure that a clear audit trail of reconciling items on the periodic bank reconciliations and the follow up of these is retained.</p> <p>Exhibit 3, issue 1</p>	<p>Bank reconciliations are currently carried out by FLS on behalf of Scottish Forestry. We will liaise with FLS to review the reconciliation process including roles and responsibilities going forward.</p> <p>Ross Machardie – Head of Finance and Business Support</p> <p>November 2019</p>
2	<p>EU income – grants</p> <p>Issues have been identified in previous years in relation to the audit of EU grant claims.</p> <p>Risk: Given the significance of the EU income accrual and the complex regulatory environment surrounding EU funding, there is a risk that some funding may be disallowed. Income may have been accrued in error which will result in subsequent pressures on finances.</p>	<p>Scottish Forestry should ensure that there are adequate controls in place to ensure disallowance is avoided and that all grant conditions are met.</p> <p>Exhibit 3, issue 2</p>	<p>Scottish Forestry will continue to ensure that all grant related accruals are based on sound information including verified reports and claim data. Reporting under the FGS is continuing to be improved and will help to enhance the confidence around accruals.</p> <p>Multiple controls and case process monitoring will continue to be developed and carried out by Scottish Forestry and SG internal audit to ensure ongoing good compliance with EU regulations and minimise the risk of future disallowances. Where significant risks are identified provisions will be included within the relevant year's accounts.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>NFI</p> <p>The review of the recommended matches should be progressed. The Audit and Assurance Committee of Scottish Forestry should be provided with the self-appraisal checklist in order to be informed of the process.</p> <p>Risk: There is a risk that Audit and Assurance Committee members are not kept fully appraised of the progress made on the NFI exercise.</p>	<p>The review of the recommended matches should be progressed. The Audit and Assurance Committee of Scottish Forestry should be provided with the self-appraisal checklist in order to be informed of the process.</p> <p>Page 15</p>	<p>Brendan Callaghan - Head of Operational Delivery</p> <p>Ongoing</p> <p>NFI paper has been submitted for presentation at August 2019 Audit and Risk Committee. This includes an annex with the self - appraisal checklist. The exercise will also be concluded in August with results being updated in the NFI portal.</p> <p>Ross Machardie – Head of Finance of Business Support</p> <p>August 2019</p>
4	<p>Longer-term financial planning</p> <p>Longer-term financial planning was deferred by Forestry Commission Scotland pending the transition to Scottish Forestry.</p> <p>Risk: In the absence of longer-term financial planning there is a risk that the impact of budget assumptions on agreed or projected outputs is not effectively recognised.</p>	<p>A longer-term financial strategy should be developed for Scottish Forestry, supported by clear and detailed financial plans. Financial planning should align with the Scottish Forestry corporate plan.</p> <p>Page 17</p>	<p>SG spending review has continued to be applied annually making longer - term financial planning more difficult.</p> <p>Senior Management has continued to engage with SG officials within the spending review process ensuring suitable budget plans.</p> <p>A corporate plan will be established for Scottish Forestry by April 2020 which will include longer - term financial planning.</p> <p>Scottish Forestry is also engaging in a new SG spending review exercise covering 2020 – 2024.</p> <p>Jo O'Hara – Chief Executive/Ross Machardie – Head of Finance and Business Support</p> <p>April 2020</p>
5	<p>Governance statement – assurances</p> <p>Heads of Service do not complete an internal control checklist; instead they refer to</p>	<p>The example assurance checklist provided in the SPFM should be reviewed and applied to Scottish Forestry. This will provide better alignment to the process</p>	<p>Heads of Service assurance letters and checklists will continue to be reviewed and aligned with SG assurance framework in SPFM where necessary. We will also</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>a list of control processes which then provide the basis for their assurance.</p> <p>Risk: There is a risk that the assurances provided to the accountable officer are not fully aligned with the format used by Scottish executive agencies.</p>	<p>applied by the Scottish Government and will provide a fuller review of the internal control process in operation.</p> <p>Page 19</p>	<p>continue to liaise with SGIAD in reviewing Governance arrangements for Scottish Forestry.</p> <p>Ross Machardie – Head of Finance and Business Support</p> <p>March 2020</p>
6	<p>Corporate plan</p> <p>A corporate plan was due to be finalised by October 2019. Work is underway to develop the corporate plan.</p> <p>Risk: In the absence of a corporate plan, there is a risk of lack of clarity about roles, responsibilities and accountabilities as the new arrangements develop and a risk that this impacts on Scottish Forestry's effectiveness.</p>	<p>Management should continue to progress work already underway to develop the Scottish Forestry corporate plan. The corporate plan should be supported by an annual business plan.</p> <p>Page 21</p>	<p>Work has started on a Corporate Plan for Scottish Forestry, which will be publicly consulted on. The implementation date for the plan has always been agreed to be April 2020.</p> <p>A Business Plan has been drafted for 2019/20 and is expected to be in place in August 2019.</p> <p>Jo O'Hara – Chief Executive/Ross Machardie – Head of Finance and Business Support</p> <p>April 2020</p>
7	<p>Performance management</p> <p>Scottish Forestry will be expected to take an 'outcomes based approach' to corporate and business planning, and effectively demonstrate their contribution to the delivery of the government's Purpose and National Outcomes, as set out in the National Performance Framework</p> <p>Risk: There is a risk that the performance report does not maximise its potential as a means of communicating performance.</p>	<p>Scottish Forestry should review the content and presentation of its performance report to ensure it takes full advantage of the opportunity to communicate how it has applied the funding it receives and what was achieved. Scottish Forestry should provide an assessment of its contribution to the Scottish Government outcomes.</p> <p>Page 25</p>	<p>A Business Plan is expected to be in place during August 2019, which will align Scottish Forestry objectives and priorities with the SG National Performance Framework.</p> <p>Management will review the contents of our Performance Report with the SG National Performance Framework and our contribution to this in mind.</p> <p>Jo O'Hara – Chief Executive/Ross Machardie – Head of Finance and Business Support</p> <p>April 2020</p>
Follow up of prior year recommendations			
1	<p>EU income</p> <p>Issues have been identified in the past in relation to the audit of EU claims.</p>	<p>Forestry Commission Scotland should ensure that there are adequate controls in place to ensure disallowance is</p>	<p>See point 2 above.</p> <p>Ongoing</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Risk - there is a risk that some scheme funding may be disallowed, or income may have been accrued in error which result in subsequent pressures on finances.</p>	<p>avoided and that all relevant grant conditions are met.</p>	
2	<p>Medium to long term financial planning</p> <p>Longer term financial planning has been deferred pending the reorganisation of Forestry Commission Scotland.</p> <p>Risk - there is a risk that the impact of budget assumptions on agreed or projected outputs is not effectively recognised.</p>	<p>We recommend that once devolution of central services is complete and arrangements for the new Agency are more settled that, a long-term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) is prepared.</p> <p>Plans should set out scenario plans (best, worst, most likely); with a much clearer assessment of the impact of budget assumptions on activity.</p>	<p>See point 4 above. Ongoing</p>
3	<p>NFI</p> <p>The NFI self-appraisal checklist was not provided to the Audit and Risk Committee.</p> <p>Risk - there is a risk that the Audit and Risk Committee is not kept apprised of progress on the NFI exercise.</p>	<p>The Audit and Risk Committee should review the NFI self-appraisal checklist as completed by management to ensure they are fully informed of progress on the 2018/19 NFI exercise.</p>	<p>See point 3 above. Not actioned</p>
4	<p>Performance management</p> <p>Information provided in the annual report could be enhanced through the assessment of whether the priorities are being delivered and whether the aims are being achieved.</p> <p>Risk - There is a risk that the new Agency cannot demonstrate its progress in achieving Scottish Government performance targets.</p>	<p>Forestry Commission Scotland should build on its existing approaches to managing and publicly reporting organisational performance. The contribution this makes to the Scottish Government's outcomes should be demonstrated.</p> <p>Reporting systems may need to be developed to provide this information.</p>	<p>See point 7 above. Ongoing</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<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 change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of year-end payables and receivables. Evaluation of significant transactions that are outside the normal course of business. Substantive testing of transactions after the year end to confirm expenditure and income have been accounted for in the correct financial year. 	<p>We did not identify any issues as a result of our audit work that would indicate management override of controls affecting the year-end position.</p> <p>As referenced at paragraph 47 above, in our 2018/19 management report we reported on issues surrounding authorisation of journal entries.</p> <p>Management advised that will mean that all journals going forward will be input and authorised by two different people.</p>
<p>2 Risk of fraud over grant expenditure</p> <p>ISA 240 and the Code of Audit Practice require auditors to consider the risk of fraud over certain types of public sector expenditure. This includes grants and other claims made by individuals and organisations on the public purse. Forestry Commission Scotland (FCS) administers a significant number of grants to private woodland owners. In 2017/18, £21.2m was paid in general support grants and £16.9m of grants were funded by the EU.</p> <p>There is an inherent risk of fraud over the payment of grants.</p>	<ul style="list-style-type: none"> Analytical procedures. Review of controls in place over grant expenditure to address the risk of fraud and substantive testing. Substantive testing of expenditure transactions focussing on the areas of greatest risk. Consideration of Internal Audit's review of Scottish Rural Development Programme (SRDP) grants; EU inspections; and EU breaches of penalties and management checking. Review and reliance on FCS Finance team's review of SRDP grants. 	<p>We considered the work of internal audit in relation to grant expenditure.</p> <p>We carried out controls and substantive testing on a sample of Forestry Grant Scheme and SRDP grant payments and did not identify any significant issues.</p> <p>Anti-fraud arrangements (including participation in the National Fraud Initiative exercise) were reviewed, with no issues identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> • Focused testing of year-end payables. • Review of FCS's anti-fraud arrangements and completion of National Fraud Initiative questionnaire. 	
<p>3 EU funded grant schemes</p> <p>The Forestry Grant Scheme is a discrete scheme under the Scottish Rural Development Programme. FCS is the Scheme Manager and is responsible for complying with EU regulations. There continue to be two legacy schemes still in operation.</p> <p>In 2017/18, FCS accrued £15.2m of EU funding. This related to grant payments made by FCS for the Forestry Grant Scheme (FGS), for which EU grant funding was to be claimed in 2018/19.</p> <p>Recent internal audit work has provided limited assurance for SRDP grant and EU inspection.</p> <p>There is a risk that:</p> <ul style="list-style-type: none"> • approved expenditure does not comply with EU regulations • FCS does not properly provide for potential disallowances • the necessary information required from the Scottish Government is not received timeously leading to an underclaim of grant. 	<ul style="list-style-type: none"> • Minute reviews of joint SGRPID and FCS meetings. • Consideration of Internal Audit's review of SRDP grants; EU inspections; and EU breaches of penalties and management checking. • Review of year end accrual. • Monitor progress of commitments for any potential disallowance and ensure accounting treatment is appropriate. 	<p>We reviewed the minutes of meetings between Forestry Commission Scotland and SGRPID and considered the work of internal audit. In addition, we undertook testing of the year-end accrual for grant payments. No specific issues were identified.</p> <p>We have been advised by management that there are no potential disallowances for 2018/19 grant payments.</p> <p>However, there remains a risk that:</p> <ul style="list-style-type: none"> • Approved expenditure does not comply with EU regulations. • The necessary information required from the Scottish Government is not received timeously, leading to an underclaim of grant income. <p>Appendix 1, Point 2</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>4 Governance and transparency</p> <p>FCS will transition to Scottish Forestry on 1 April 2019.</p> <p>Alongside this significant organisational change, FCS is also impacted by the devolution of services which were previously administered on a GB basis, many of which are</p>	<ul style="list-style-type: none"> • Monitor progress of organisational change programmes and transition to Agency. • Review processes for maintaining register of interests. • Monitor progress on testing plans for business continuity and review progress on 	<p>We carried out discussions with management on an ongoing basis throughout 2018/19 to monitor the progress of the transition programme.</p> <p>As noted in paragraph 54 above, Forestry Commission Scotland registers of interests were maintained by the Forestry Commission and held on this website until 31 March 2019.</p>
--	---	---

Audit Risk	Assurance procedure	Results and conclusions
<p>now being administered by Forest Enterprise Scotland.</p> <p>Until the new structures and processes settle, there remain a number of risks. These include:</p> <ul style="list-style-type: none"> • the loss of key staff and knowledge • 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. 	<p>implementing General Data Protection Regulation.</p> <ul style="list-style-type: none"> • Monitor progress of transition of shared services. • Review processes for maintaining FCS risk registers. 	<p>These registers are available for public inspection as requested and will be made available on the Scottish Forestry website in due course.</p> <p>We considered progress made on the implementation of GDPR. Scottish Forestry are engaging with internal audit in respect of advisory work on compliance with the GDPR.</p>

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Central Government relevant reports

[Scottish Fire and Rescue Service: an update](#) – May 2018

[Scotland's colleges 2018](#) – June 2018

[The National Fraud Initiative in Scotland 2016/17](#) – July 2018

[Forth Replacement Crossing](#) – August 2018

[Major project and procurement lessons](#) – August 2018

[Superfast broadband for Scotland: further progress update](#) – September 2018

Forestry Commission Scotland

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

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk