

Forestry and Land Scotland

2019/20 Annual Audit Plan



 AUDIT SCOTLAND

Prepared for Forestry and Land Scotland

March 2020

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. The Forestry and Land Management (Scotland) Act 2018 received Royal Assent on 1 May 2018 with all provisions becoming operational from 1 April 2019. This concludes the forestry devolution process. The Act repeals the original Forestry Act 1967 and makes new provisions regarding Scottish Ministers' functions in relation to forestry and land management.
2. As a result of the Act, Forest Enterprise Scotland was replaced by Forestry and Land Scotland, an executive agency of the Scottish Government, on 1 April 2019. All activities, assets and liabilities were transferred from Forest Enterprise Scotland to Forestry and Land Scotland on 1 April.
3. Mark Taylor (Audit Director, Audit Scotland) was appointed as the external auditor for the 2019/20 and 2020/21 audits. This is our first annual audit plan following the establishment of Forestry and Land Scotland.
4. The annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.
5. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

6. We aim to add value to Forestry and Land 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 Forestry and Land Scotland promote improved standards of governance, better management and decision making and more effective use of resources. We presented an information session to finance staff which provided an overview and objectives of an audit in relation to Forestry and Land Scotland.

Audit risks

7. Based on our discussions with staff, attendance at Audit and Risk Committee meetings and a review of supporting information we have identified the following significant risks for Forestry and Land Scotland. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Testing of journal entries.</p> <p>Review of accounting estimates and judgements.</p> <p>Focused testing of year-end payables and receivables.</p> <p>Substantive cut-off testing of income and expenditure transactions to ensure accounted for in the correct financial year.</p> <p>Evaluation of significant transactions outwith the normal course of business.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. The Financial Reporting Council's Practice Note 10 expands this to require consideration of fraud over expenditure in the public sector.</p> <p>Forestry and Land Scotland generate a significant amount of income in addition to Scottish Government funding. In 2018/19, income in excess of £100 million from other sources was received and includes £78 million from timber sales.</p> <p>A significant amount of non-standard, non-payroll expenditure is also incurred. In 2018/19, operating expenditure was £97.2m.</p> <p>The nature, extent and complexity of income and expenditure sources means that, in accordance with ISA 240 and Practice Note 10, there is an inherent risk of fraud.</p>	<p>Effective and regular budget monitoring arrangements.</p> <p>Well established financial systems and effective internal controls.</p> <p>Effective counter fraud and whistleblowing procedures in place.</p> <p>Appropriate segregation of duties in finance function.</p> <p>Regular reconciliations and checks.</p>	<p>Testing of income and expenditure transactions, focussing on areas of greatest risk.</p> <p>Substantive cut-off testing of income and expenditure transactions to ensure accounted for in the correct financial year.</p> <p>Review of the accounts receivable and payable systems and associated key controls.</p> <p>Review of controls during forest region visit, including an assessment of timber income controls (Sales Recording Package) and timber security arrangements.</p> <p>Review of anti-fraud arrangements and completion of national fraud initiative follow up questionnaire.</p>

	Audit Risk	Source of assurance	Planned audit work
3	Accounting estimation and judgement There is a significant degree of subjectivity in the measurement and valuation of material account areas such as biological assets and the forest estate (2018/19: £2,048m), land and buildings (2018/19: £351.8m), timber stock and work in progress (2018/19: £9.3m) and opencast contingent liabilities (2018/19: £2.9m). The judgements over the valuation of these items represents an inherent risk of material misstatement in the financial statements.	Sound arrangements for providing valuation information. The use of established professional valuers. An independent review by a third party of the accounting for inventories and biological assets has been commissioned. Management monitoring of opencast coal site contingent liabilities. Assurance Framework in place.	Review of the work of the professional valuer and in-house valuers where appropriate. Review of the process for applying the annual indexation to biological assets and the forest estate and the subsequent accounting adjustments. Review of the annual valuation exercise for year-end stock balances. Review of the appropriateness of accounting policies. Consideration of the accuracy of the valuation of opencast contingent liabilities included in the financial statements. Substantive testing of year-end balances.

Wider dimension risks

4	Financial sustainability – longer-term financial planning A significant amount of Forestry and Land Scotland's expenditure is funded by income generating activities (2018/19: £100.7m). Timber income accounted for 77% (£78.0m) of the income generating activities in 2018/19. While timber prices have been rising steadily in previous years, the market remains volatile and the impact of EU withdrawal on timber prices remains uncertain. Forestry and Land Scotland do not currently have a longer-term financial strategy which includes detailed financial plans, scenario planning and the application of cash reserves. There is a risk that fluctuations in budgeted income or expenditure or changes in the level of Scottish Government funding following the transition to an Agency are not effectively managed.	Development of longer-term financial plan. Effective management of cash reserves in line with agreed reserves policy. Robust budget monitoring process in place. Ongoing monitoring of market conditions and the impact on timber prices. Effective operation of the Investment Board and Investment Panel.	Review of budgetary control arrangements. Monitor progress towards development of longer-term financial plan. Consideration of year-end reserve balance.
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	Audit Risk	Source of assurance	Planned audit work
5	<p>Governance and transparency – organisational change</p> <p>A significant amount of work continues in respect of the establishment of Forestry and Land Scotland. This includes:</p> <ul style="list-style-type: none"> • a review of risk management arrangements and review and update of corporate policies and documents • the provision of a number of key services on behalf of themselves and Scottish Forestry that were previously administered by the shared services function • the appointment of new non-executive members together with a number of changes to key staff • the impact of changing to a Scottish Government Agency and the different reporting requirements. <p>There is a risk that internal controls and governance arrangements do not operate effectively.</p>	<p>Robust monitoring of organisational change programmes and completion of planned projects.</p> <p>Continuing work to complete review and update of policies and corporate projects.</p> <p>Transparent and effective operation of governance arrangements, including key decision making channels.</p> <p>Continuing work to complete review and update of the Assurance Framework, including internal controls.</p> <p>Effective development, implementation and monitoring of the Risk Management policy and framework.</p> <p>Corporate Plan and Business Plans (Corporate Planning Framework).</p> <p>Framework Document.</p> <p>Corporate Performance Reports.</p>	<p>Consideration of the findings from internal audit's report on corporate governance.</p> <p>Assessment of progress towards completion of planned projects.</p> <p>Review and assessment of the effectiveness of governance arrangements.</p> <p>Review and assessment of the effectiveness of internal controls.</p> <p>Ongoing dialogue with finance staff in advance of annual report and accounts preparation.</p> <p>Review processes for maintaining register of interests.</p>

Source: Audit Scotland

Reporting arrangements

8. 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.

9. 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 officer(s) to confirm factual accuracy.

10. We will provide an independent auditor's report to Forestry and Land Scotland, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the financial statements. 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

2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	28 February 2020	17 March 2020
Management Report	22 May 2020	5 August 2020
Independent Auditor's Report	29 July 2020	5 August 2020
Annual Audit Report	29 July 2020	5 August 2020
Whole of Government Accounts	28 September 2020	Not applicable

Source: Audit Scotland

Audit fee

11. The notional audit fee for the 2019/20 audit of Forestry and Land Scotland is £89,000. In determining the audit fee we have taken account of the risk exposure of Forestry and Land 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 annual accounts, with a complete working papers package on 29 May 2020.

12. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report and accounts, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

13. 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.

14. The audit of the annual report and accounts does not relieve management or the Audit and Risk Committee as those charged with governance, of their responsibilities.

Appointed auditor

15. 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.

16. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and 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

17. 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 Forestry and Land 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 Forestry and Land 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.

18. 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 were properly prepared in accordance with the accounts direction.



characteristics



responsibilities



principal activities



risks



governance arrangements

Other information in the annual accounts

19. We also review and report on statutory other information published within the annual report and accounts including the performance report, the 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.

20. We also review the content of the annual report for consistency with the financial statements and our knowledge. We report any uncorrected material misstatements in other information.

Materiality

21. 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.

22. We calculate materiality at different levels as described below. The calculated materiality values for Forestry and Land 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 2018/19 audited accounts of Forest Enterprise Scotland.	£23.7 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.	£14.2 million
As the value of Forestry and Land 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.	£1.1 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount. This has been calculated at 1% of planning materiality, capped at £100,000.	£100,000

Source: 2018/19 Forest Enterprise Scotland annual report and accounts; Audit Scotland

Timetable

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

24. The year-end accounts and audit timetable for Forestry and Land Scotland is challenging. There has been a high turnover in key members of the finance team in recent years. Key finance staff are now in post and recruitment is ongoing in order to increase the team’s capacity. It is important that controls continue to operate effectively and that the capacity within the finance function is maintained going forward. We shall continue to work with management to support the delivery of the year-end timetable.

Exhibit 4

Annual report and accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	29 May 2020
Latest date for final clearance meeting with Head of Finance and Procurement and Deputy Head of Finance	By 28 July 2020
Agreement of audited unsigned financial statements Issue of draft Annual Audit Report including ISA 260 / 580 report (proposed independent auditor's report and letter of representation) to those charged with governance	By 29 July 2020
Independent auditor's report signed	6 August 2020
Latest date for signing of Whole of Government Accounts return	28 September 2020

Internal audit

25. Internal audit is provided by the Scottish Government Internal Audit Directorate. As part of our planning process we are required to carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards. ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

26. Audit Scotland's Scottish Government audit team will carry out this review. We plan to place reliance on this review and will report any significant findings to management on a timely basis.

Using the work of internal audit

27. 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 shall consider the following as part of our wider dimension audit responsibilities. These are:

- reporting, assurance and risk management
- health and safety
- corporate governance.

Audit dimensions

28. 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

29. 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 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 level of cash reserves held by Forestry and Land Scotland and their application
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether Forestry and Land Scotland can demonstrate the affordability and effectiveness of funding and investment decisions, through the operation of the Investment Board and Panel.

Financial management

30. 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 arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how Forestry and Land Scotland has assured itself that its financial capacity and skills are appropriate

- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

31. We will carry out a high-level assessment of the risk of fraud within Forestry and Land Scotland's procurement function.

Governance and transparency

32. 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 Forestry and Land 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.

Value for money

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

- value for money in the use of resources
- whether there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Best value

34. The Accountable Officer of Forestry and Land Scotland has a duty to ensure arrangements are in place to secure best value. We will consider these arrangements and report as appropriate.

Independence and objectivity

35. 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.

36. The engagement lead (appointed auditor) for Forestry and Land Scotland is Mark Taylor, Audit Director. Auditing and ethical standards require the appointed auditor 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 Forestry and Land Scotland.

Quality control

37. International Standard on Quality Control (UK) 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.

38. 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.

39. 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.

Forestry and Land Scotland

2019/20 Annual Audit Plan

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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