

# Scottish Forestry

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Scottish Forestry  
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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# Contents

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Risks and planned work	4
Audit scope and timing	9

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# Risks and planned work

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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, Forestry Commission Scotland was replaced by Scottish Forestry on 1 April 2019 which is an executive agency of the Scottish Government. All activities, assets and liabilities were transferred from Forestry Commission Scotland to Scottish Forestry on 1 April.
3. Mark Taylor (Audit Director, Audit Scotland) was appointed as the external auditor for the 2019/20 to 2020/21 financial years. This is our first annual audit plan following the establishment of Scottish Forestry.
4. This 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 Scottish Forestry 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 Scottish Forestry promote improved standards of governance, better management and decision making and more effective use of resources. We have delivered an information session to the new non-executive members on public sector audit.

## Audit risks

7. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for Scottish Forestry. 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

#### Financial statements risks

<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require 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>	<ul style="list-style-type: none"> <li>• Testing of journal entries.</li> <li>• Focused testing of year-end payables and receivables.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> <li>• Substantive testing of transactions after the year end to confirm expenditure and income have been accounted for in the correct financial year.</li> </ul>
<p><b>2 Risk of material misstatement caused by fraud in grant expenditure</b></p> <p>Practice Note 10 require auditors to consider the risk of fraud over certain types of public sector expenditure. As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure.</p> <p>Scottish Forestry administers a significant number of grants to private woodland owners. In 2018/19, grants of £51 million were paid to private woodland owners of which £20 million were funded by EU.</p> <p>There is an inherent risk of fraud in the payment of grants.</p>	<p>Specific controls in place to vet expenditure by recipients of grants.</p> <p>All grant payments are paid to claimants who have already been vetted by Scottish Government Rural Payments and Inspections Directorate (SGRPID) to ascertain their identity.</p> <p>Grant claims are chosen to be inspected on a risk or random basis by Scottish Forestry staff.</p> <p>5% of businesses claiming grants are randomly selected for inspection by SGRPID.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures.</li> <li>• Review of controls in place over grant expenditure.</li> <li>• Substantive testing of expenditure transactions focussing on the areas of greatest risk.</li> <li>• Review and reliance on Scottish Forestry's finance team's review of Scottish Rural Development Programme (SRDP) grants.</li> <li>• Focussed testing of year end payables.</li> <li>• Review of anti-fraud arrangements and completion of National Fraud Initiative follow up questionnaire.</li> </ul>
<p><b>3 Risk of error in accounting for EU funded grant schemes</b></p> <p>The Forestry Grant Scheme (FGS) is a discrete scheme under the Scottish Rural Development Programme. Scottish Forestry is the Scheme Manager and is responsible for complying with EU regulations. There also continues to be two legacy schemes in operation.</p> <p>Contingency arrangements have been put in place by Scottish Forestry over the SGRPID IT provision to support the functionality of the FGS.</p>	<p>Sample checks are carried out by Scottish Forestry Finance teams on FGS cases after payments have been made.</p> <p>Any potential risks of non-compliance are escalated to and discussed with the Audit and Assurance Committee.</p> <p>Where EU audits take place and potential disallowances are identified Scottish Forestry will assess the</p>	<ul style="list-style-type: none"> <li>• Minute reviews of joint SGRPID and Scottish Forestry meetings.</li> <li>• Review of year end accrual.</li> <li>• Monitor progress of commitments for any potential disallowance and ensure accounting treatment is appropriate.</li> <li>• Consider Internal Audit's follow up report on inspections and penalties.</li> </ul>

In 2018/19, £16 million of EU funding was accrued. This related to grant payments made by Forestry Commission Scotland for the FGS, for which EU funding was to be claimed in 2019/20.

There remains a risk that:

- approved expenditure does not comply with EU regulations
- Scottish Forestry 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.
- the SGRPID IT provision is not sufficient to allow the FGS to function.

likelihood of disallowance occurring and if appropriate include a provision or disclosure in the relevant annual accounts.

The Senior Finance Manager liaises with the SGRPID finance team to establish clear timings for the provision of financial data between both organisations.

Multiple controls and case process monitoring will continue to be developed and carried out by Scottish Forestry and Scottish Government 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.

## Wider dimension risks

### 4 Governance and transparency

A significant amount of work was undertaken, and continues, in respect of the transition to Scottish Forestry. New governance arrangements continue to embed. Governance Groups are in place, a new Accountable Officer took up the position in January 2020, and shared services are largely delivered by Forestry and Land Scotland. In addition, a number of policies and corporate documents require review and updating.

As a result of this continuing period of organisational change, there remain a number of risks, including:

- loss of key staff and knowledge
- the effectiveness of internal controls may be impacted
- governance arrangements are not kept up to date, including the review and update of the register of interests and the risk register.

Emerging issues are reported directly to Scottish Forestry Executive Team.

The Senior Executive Team meet monthly and the Strategic Advisory Group meet quarterly. Both groups have Terms of Reference and agreement on roles and responsibilities.

An Assurance Framework has been adopted, which sets out the roles and responsibilities of the different governance groups, key principles and concepts, how we will report on assurance and risk, and report and review.

A risk register, statement and appetite has been agreed.

A Business Plan for 2019/20 has been agreed by the Cabinet Secretary.

- Consideration of the findings from internal audit's review of corporate governance.
- Assessment of progress towards completion of planned projects.
- Review and assessment of governance arrangements.
- Review and assessment of internal controls.
- Review processes for maintaining register of interests.

## 5 Longer term financial planning

Longer-term financial planning was deferred by Forestry Commission Scotland due to the completion of forestry devolution.

Without a longer-term financial plan which focuses on scenario planning, there is a risk that the impact of 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.

The Senior Executive Team have agreed that long term financial and management planning should be addressed as part of the Corporate Planning process. It will also be added to the Corporate Risk Register.

- Review progress on development on longer term financial planning.

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Source: Audit Scotland

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**8.** As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risks of material misstatement caused by fraud in income recognition in 2019/20 because the main sources of income relate to government funding and EU income and therefore not regarded as a separate risk.

## Reporting arrangements

**9.** 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](http://www.audit-scotland.gov.uk).

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

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

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## Exhibit 2 2019/20 Audit outputs

Annual Audit Plan	28 February 2020	12 March 2020
Management Report	29 May 2020	29 July 2020 (tbc)
Independent Auditor's Report	By 22 July 2020 (tbc)	29 July 2020 (tbc)
Annual Audit Report	By 22 July 2020 (tbc)	29 July 2020 (tbc)

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Source: Audit Scotland

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## Audit fee

**12.** The agreed notional audit fee for the 2019/20 audit of Scottish Forestry is £50,000. In determining the audit fee we have taken account of the risk exposure of Scottish Forestry, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 25 May 2020.

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

## Responsibilities

### Audit and Assurance Committee and Accountable Officer

**14.** 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.

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

### Appointed auditor

**16.** 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.

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



# Audit scope and timing

## Annual accounts

**18.** The annual 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 Scottish Forestry 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 Scottish Forestry 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.

**19.** 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 and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.



## Other information in the annual accounts

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

**21.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We will report any uncorrected material misstatements.

## Materiality

**22.** 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.

**23.** We calculate materiality at different levels as described below. The calculated materiality values for Scottish Forestry are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values

<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of Forestry Commission Scotland’s gross expenditure for the year ended 31 March 2019.	£1,300,000
<b>Performance materiality</b> – 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 planning materiality.	£975,000
<b>Reporting threshold (i.e., clearly trivial)</b> – 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 4% of planning materiality.	£50,000

Source: Audit Scotland

### Timetable

**24.** 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](#).

### Exhibit 4 Annual accounts timetable

Latest submission date of unaudited annual report and accounts with complete working papers package	By 25 May 2020
Latest date for final clearance meeting with the Head of Finance & Business Support and Financial Accountant	By 17 July 2020
Agreement of audited unsigned financial statements	By 22 July 2020 (tbc)
Issue of draft Annual Audit Report including ISA 260 report (proposed independent auditor’s report and letter of representation) to those charged with governance	
Independent auditor’s report signed	31 July 2020 (tbc)

### Internal audit

**25.** Internal audit is provided by the Scottish Government Internal Audit Directorate. As part of our planning process we 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 (PSIAS). 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 scope responsibilities.

- EU Grants (follow up)
- 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. We shall consider over the period of our appointment:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term

- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

**30.** Forestry Commission Scotland receives a significant level of EU funding. As part of our 2019/20 audit work, we will consider Scottish Forestry's response to EU withdrawal, including any impact on financial sustainability.

### Financial management

**31.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We shall consider over the period of our appointment:

- 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 Scottish Forestry 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. We shall undertake a high-level assessment of the procurement function in relation to the prevention of fraud.

### 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 appointment we shall consider:

- whether Scottish Forestry 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.

**33.** As part of our 2019/20 audit, we will assess Scottish Forestry's progress towards reviewing the data matches identified through the National Fraud Initiative.

### Value for money

**34.** Value for money refers to using resources effectively and continually improving services. We shall consider whether Scottish Forestry can demonstrate:

- value for money in the use of resources
- 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

**35.** The Accountable Officer of Scottish Forestry has a duty to ensure arrangements are in place to secure best value. As part of our wider dimension audit work we will consider these arrangements.

## Independence and objectivity

**36.** 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.

**37.** The engagement lead (i.e. appointed auditor) for Scottish Forestry 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 Scottish Forestry.

## Quality control

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

**39.** 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.

**40.** 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.

# Scottish Forestry

## Annual Audit Plan 2019/20

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](mailto:info@audit-scotland.gov.uk)

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