

Scottish Forestry

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for Scottish Forestry
March 2021



Who we are

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

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



About us

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

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

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

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit 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.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

3. The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits.

5. We published a further [update](#) on the impact of Covid-19 on public audit in January 2021, which recognised that the reintroduction of restrictions affects our capacity for audit work. It may also affect the capacity of some public bodies to prepare accounts. The well-being of everyone involved and the delivery of high-quality audits remain paramount, and we will continue to be flexible about timelines. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

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.

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

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards (ISA 240) require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that result 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"> • Testing of journal entries. • Focused testing of year end payables and receivables. • Identification and 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>2 Risk of material misstatement caused by fraud over grant expenditure</p> <p>In line with Practice Note 10 (2020), most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Scottish Forestry incurs significant expenditure in grant payments (2019/20: £52.2 million) to individuals and organisations including private woodland owners. 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 Division (SGRPID) to ascertain their identity.</p> <p>5% of businesses claiming FGS capital grants are selected for a full compliance inspection by Scottish Forestry on a risk and random basis and 5% of businesses claiming annual management/maintenance grants are selected for a full compliance inspection by SGRPID on a risk and random basis.</p> <p>Sample checks are carried out by Scottish Forestry Finance team on FGS cases after payments have been made.</p>	<ul style="list-style-type: none"> • Sample testing of 2020/21 grants paid in year to ensure grants only paid when there is evidence grants conditions have been met. • Sample testing of grants committed to, but not paid by year end to ensure they can be agreed to an agreed schedule of works and subsequent payment where possible. • Sample testing of grants committed to after the year end to confirm expenditure has been accounted for in the correct financial year.
<p>3 Risk of uncertainty over EU income</p> <p>Scottish Forestry is responsible for delivering the Forestry Grant Scheme (FGS) and two legacy schemes under the Scottish</p>	<p>Any potential risks of non-compliance are escalated to and discussed with the Audit and Assurance Committee.</p>	<ul style="list-style-type: none"> • Sample testing of 2020/21 grant payments to ensure EU regulations have been complied with. • Sample testing of post year end receipts to confirm the accuracy of income accrued and ensure

	Audit Risk	Source of assurance	Planned audit work
	<p>Rural Development Programme. The schemes are currently partly funded by the EU and therefore Scottish Forestry must comply with EU regulations.</p> <p>In 2019/20, £21.7 million of EU funding was accrued relating to grant payments made by Scottish Forestry for which EU funding was to be claimed in 2020/21.</p> <p>There is a risk that approved expenditure does not comply with EU regulations and therefore Scottish Forestry do not fully recover the income accrued.</p>	<p>Where EU audits take place and potential disallowances are identified Scottish Forestry, in partnership with the Paying Agency (SG's Agricultural & Rural Economy Directorate) will assess the likelihood of disallowance occurring and if appropriate include a provision or disclosure in the relevant annual accounts.</p> <p>Controls and case process is 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.</p>	<p>income is accounted for in the correct financial year.</p> <ul style="list-style-type: none"> Minute reviews of joint SGRPID (Scottish Government's Rural Payments and Inspections Directorate) and Scottish Forestry meetings.

Wider dimension risks

4 Achievement of targets

Scottish Forestry's delivery against key targets continues to be challenging. For example, woodland creation has a target of 18,000 hectares by 2024.

Additional resources, in terms of staffing and budget, will be required to deliver on its commitments.

There is a risk that, without detailed workforce or financial plans in place Scottish Forestry will not be able to anticipate the resources required to achieve its objectives.

Scottish Forestry have progressed staff and budget MI which is reported to SET (HR dashboard). This utilises reporting capabilities of new HR system (ITrent). ITrent is being developed on an ongoing basis and additional opportunities for enhanced reporting will be explored.

Further improvements to MI will be developed and facilitated by the permanent appointment of a Lead Business Analyst.

Team (cost centre) plans are also being updated for 2021-22 with a view to better capturing workforce requirements and associated budgets which can feed into longer term planning within Scottish Forestry.

Work is underway to develop a future operating model which will allow us

- Monitor progress in developing workforce and financial planning.
- Review financial and performance monitoring and reporting during the year.

**Audit Risk****Source of assurance****Planned audit work**

to better meet the challenge of rising targets.

Source: Audit Scotland

8. As set out in ISA (UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. Scottish Forestry's main source of income is Scottish Government funding and EU funding received via the Scottish Government's Rural Payments and Inspections Directorate (SGRPID) to support grants under the Scottish Rural Development Programme. We do not consider this income to be subject to significant risk of fraudulent recognition, therefore we have rebutted this presumed risk in 2020/21.

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.

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 officer 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 report and accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	23 rd February 2020	9th March 2020
Independent Auditor's Report	TBC*	TBC
Annual Audit Report	TBC*	TBC

* Please note that all dates are indicative and are likely to be subject to change.

Source: Audit Scotland

Notional Audit fee

12. The agreed notional audit fee for the 2020/21 audit of Scottish Forestry is £51,280 (2019/20 £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 annual report and accounts, with a complete working papers package on 31st May 2021 (TBC).

13. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts and/or accompanying working papers 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

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 annual report and accounts 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 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

18. 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 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 of the state of Scottish Forestry's affairs as at 31 March 2021 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements; and,
- the regularity of expenditure.

Statutory other information in the annual report and accounts

20. We also review and report on statutory other information published within the annual report and accounts including the performance report, governance statement and the remuneration and staff 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 and accounts for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

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](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

Exhibit 3

Materiality values

Materiality	Amount
Planning materiality – 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 gross expenditure for the year ended 31 March 2021 based on the latest audited accounts for 2019/20.	£1,180,000
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 planning materiality.	£885,000
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£60,000

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](#). It should be noted that the dates in this timetable are indicative and are likely to be subject to change.

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	31 st May 2021 (TBC)
Latest date for final clearance meeting with Head of Finance and Business Support and Senior Finance Manager	TBC
Agreement of audited unsigned financial statements	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	TBC

Internal audit

25. Internal audit is provided by the Scottish Government's Internal Audit and Assurance Directorate. Therefore, internal audit will be assessed by our Scottish Government audit team to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). 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

26. International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our wider audit dimension responsibilities. This will include:

- EU Grants
- Corporate Governance
- Regulatory Framework

Audit dimensions

27. 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

28. 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 will consider:

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

Financial management

29. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will consider:

- whether arrangements are in place to ensure systems of internal control are operating effectively

- the effectiveness of budgetary control systems 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.

Governance and transparency

30. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will 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.

Value for money

31. Value for money refers to using resources effectively and continually improving services. We will 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

32. The Accountable Officer of Scottish Forestry has a duty to ensure arrangements are in place to secure best value. We will consider these arrangements as appropriate.

Independence and objectivity

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

34. The engagement lead (i.e. appointed auditor) for 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

35. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and

legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

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

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

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