

# Forestry and Land Scotland

2019/20 Annual Audit Report



 AUDIT SCOTLAND

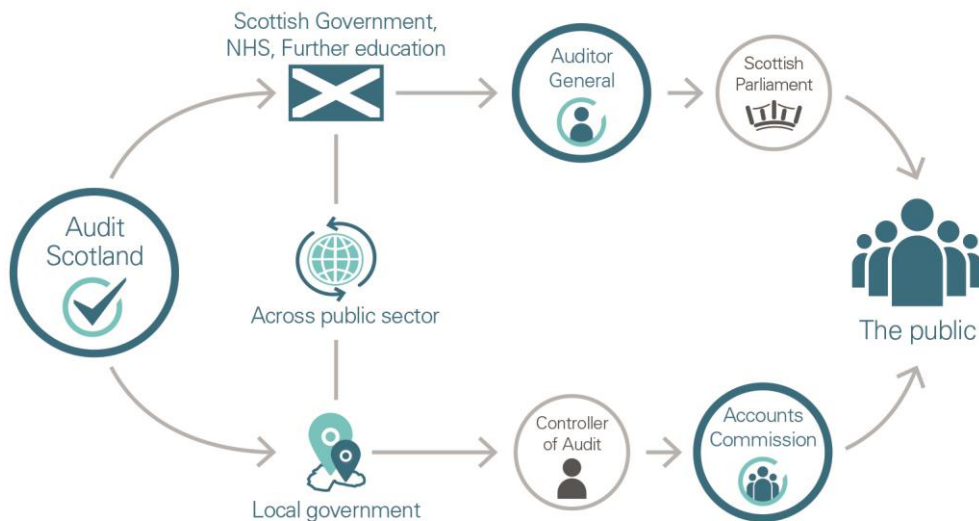
Prepared for the Forestry and Land Scotland and the Auditor General for Scotland

October 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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# Key messages

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## 2019/20 annual report and accounts

- 1 The financial statements of Forestry and Land Scotland give a true and fair view of the financial position and the net income for the year.
- 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 has been prepared in accordance with legal requirements.
- 4 An 'Emphasis of Matter' paragraph is included in the independent auditor's report to draw attention to the impact of Covid-19 on asset valuations applied in the preparation of the financial statements. The audit opinion is not modified in respect of this matter.

## Financial management

- 5 Forestry and Land Scotland operated within its budget in 2019/20.
- 6 There is scope for improvement in budget monitoring arrangements to ensure budget holders are fully aware of their responsibility for financial management.
- 7 There were some weaknesses identified in the operation of internal controls during 2019/20. However no significant weaknesses were identified which could affect Forestry and Land Scotland's ability to record, process, summarise and report financial and other relevant information.

## Financial sustainability

- 8 Forestry and Land Scotland has yet to develop a longer-term financial strategy. This should be aligned to the corporate plan and supported by clear and detailed financial plans.
- 9 Work is progressing to develop a more sustainable business model which is based on commercial activities. This is particularly important given the uncertainty around the financial impact of Covid-19 and EU withdrawal.

## Governance and transparency

- 10 Forestry and Land Scotland has established appropriate arrangements to support governance, accountability and scrutiny. These arrangements supported effective working relationships.
- 11 Additional governance arrangements were established in response to the Covid-19 pandemic. The response to the pandemic is being embedded in existing arrangements as part of the 'business as usual' activities of Forestry and Land Scotland.

- 12** Corporate and business plans were published in line with the required timescales. Corporate outcomes are aligned to the Scottish Government's National Performance Framework.

## Value for money

- 13** Forestry and Land Scotland are reviewing their activities against best value principles.
- 14** Forestry and Land Scotland had overall arrangements in place to support performance management. It met thirteen of its fifteen key performance indicators in 2019/20.
- 15** The presentation of the performance report is of a good quality. Further improvements could be made by linking achievements more clearly to the income received and linking more effectively between the individual sections of the report.

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# Introduction

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1. The [Forestry and Land Management \(Scotland\) Act](#) received Royal assent on 1 May 2018 with all provisions becoming operational from 1 April 2019.

2. Forestry and Land Scotland was established on 1 April 2019 as an executive agency of the Scottish Government and all activities, assets and liabilities were transferred from Forest Enterprise Scotland on this date. This is our first Forestry and Land Scotland annual audit report following the devolution of forestry.

3. The scope of our audit was set out in our Annual Audit Plan presented to the Audit and Risk Committee in March 2020. This report comprises the findings from:

- an audit of the 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](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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4. The main elements of our audit work in 2019/20 have been:

- an audit of Forestry and Land Scotland's 2019/20 annual report and accounts including the issue of an independent auditor's report setting out my opinions
- a review of the key financial systems

- consideration of the four audit dimensions.

**5.** In common with all public bodies, Forestry and Land Scotland has had to respond to the global coronavirus (Covid-19) pandemic. This impacted on the final weeks of the financial year and will continue to have significant impact going forward.

**6.** During the UK-wide 'lockdown' period, all but essential harvesting stopped, impacting significantly on Forestry and Land Scotland's operations. Staff continue to monitor the ongoing impact of the pandemic on the forestry sector (including the timber market, and sales prices). Many processes and working arrangements have had to adapt, with most staff continuing to work remotely.

**7.** Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit. We held discussions with management following the lockdown to discuss the impact of the pandemic on both Forestry and Land Scotland's business and the audit.

**8.** Our audit planning work took place prior to the pandemic. We reviewed our assessment of the key risks in advance of the year-end, financial statements audit and concluded that our risk assessment remained relevant, and there were no new or emerging audit risks as a result of the pandemic.

**9.** Our interim audit work was ongoing at the time of Covid-19 lockdown measures being implemented. Both Audit Scotland and Forestry and Land Scotland staff transitioned to home working at this point. We sought to be pragmatic in our requests during this time and to give Forestry and Land Scotland staff time to prioritise essential non-audit work. As noted in our management report submitted to the September Audit and Risk Committee, our interim audit was necessarily extended into May. Our audit approach to the accounts payable and accounts receivable systems were revised, and a fully substantive approach was adopted for these systems. Additional substantive testing was carried out during the financial statements audit to ensure sufficient assurance was obtained over these account areas.

## Adding value through the audit

**10.** We add value to Forestry and Land Scotland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

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

## Responsibilities and reporting

**12.** Forestry and Land Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.

**13.** Forestry and Land Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable the organisation to successfully deliver its objectives.

**14.** 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. As public sector auditors we give independent opinions on the annual report and accounts.

**15.** 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. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**16.** This report raises matters from our audit. 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.

**17.** Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officer(s) and dates for implementation. It also includes an update on outstanding actions raised previously with Forest Enterprise Scotland and progress against these.

## **Auditor Independence**

**18.** Auditors appointed by the Auditor General for Scotland must comply with the [Code of Audit Practice 2016](#) and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**19.** 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 2019/20 audit fee of £89,000 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**20.** This report is addressed to both Forestry and Land Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**21.** We would like to thank all management and staff for their co-operation and assistance during the audit, particularly given the challenges presented as a result of the Covid-19 pandemic.



# Part 1

## Audit of 2019/20 annual report and accounts



### Main judgements

The financial statements of Forestry and Land Scotland give a true and fair view of the financial position and the net income for the year.

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 has been prepared in accordance with legal requirements.

An 'Emphasis of Matter' paragraph is included in the independent auditor's report to draw attention to the impact of Covid-19 on asset valuations applied in the preparation of the financial statements. The audit opinion is not modified in respect of this matter.

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

### Our audit opinions on the annual report and accounts are unmodified

**22.** The Audit and Risk Committee agreed on 28 September 2020 that the annual report and accounts for the year ended 31 March 2020 should be passed to the Accountable Officer for signing. The Accountable Officer then approved the annual report and accounts on 13 October 2020. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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 relevant legislation and directions made by Scottish Ministers.

**23.** We have included an 'Emphasis of Matter' paragraph in our independent auditor's report which refers to the impact of Covid-19 on the asset valuations. Emphasis of Matter paragraphs are added to auditors' reports where the auditor considers it necessary to draw users' attention to matters which are fundamental to the understanding of the accounts. Note 2 'Critical Accounting Estimates and Judgements' in the financial statements describes the uncertainty caused. The audit opinion is not modified in respect of this matter. See [Exhibit 3](#) below for further information.

## The Whole of Government Accounts assurance statement remains to be submitted

24. In accordance with the Whole of Government Accounts (WGA) guidance we aim to complete the required assurance statement and submit to the National Audit Office (NAO). We await confirmation of the revised deadline for reviewing the return submitted by Forestry and Land Scotland and completing the assurance statement.

## The annual report and accounts were signed off in line with revised Scottish Government timetables, but this was later than originally planned

25. The unaudited annual report and accounts were received in line with our agreed audit timetable on 29 May 2020. We are pleased to report that the format and overall quality of the unaudited accounts and supporting working papers was much improved in comparison with previous Forest Enterprise Scotland annual report and accounts. Finance staff supported the audit team which helped ensure the audit process ran smoothly.

26. We kept in regular communication with management and revised the initial planned audit timetable. Due to the challenges of remote working, including physical limitations on access to records, the sign-off date was extended. The annual report and accounts were certified on 13 October 2020, nine weeks later than originally planned.

27. 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.

## Overall materiality was £25.4 million

28. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and the nature of a misstatement in the financial statements.

29. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate. We updated these to reflect the increased value of Forestry and Land Scotland's assets at 31 March 2020. The revised materiality levels did not impact on our planned audit approach.

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## Exhibit 2 Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 0.75% of the total net book value of biological assets, land and the forest estate for the year ended 31 March 2020.	£25.4 million
<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 60% of overall materiality.	£15.3 million

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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. £1.0 million

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**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

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Source: Forestry and Land Scotland Annual Report and Accounts 2019/20, Audit Scotland.

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## The main risks of material misstatement were identified at the planning stage

**30.** A description of those assessed risks of material misstatement in the annual report and accounts and any wider dimension audit risks that were identified during the audit planning process is included at [Appendix 2](#). These risks influenced our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also summarises the work we undertook to address these risks and our conclusions from this work.

**31.** We have reported a number of issues from our work on the risks of material misstatement highlighted in our [2019/20 annual audit plan](#), issued in March 2020. These relate to:

- the accounting estimation and judgement involved in the valuation of non-current assets;
- the risk of fraud over expenditure; and
- the importance of longer-term financial planning in ensuring financial sustainability.

**32.** These are included in the agreed action plan at [Appendix 1](#).

**33.** We undertook our audit planning work prior to the Covid-19 pandemic. In line with auditing standards and professional advice, including the [Financial Reporting Council's COVID-19 bulletin](#) published in March 2020, we reviewed our assessment of audit risks and the planned audit work in advance of the year-end audit and concluded that both remained relevant.

## Net assets of £2,467 million transferred from Forest Enterprise Scotland on 1 April 2019

**34.** As noted at paragraph 2, all activities, assets and liabilities transferred from Forest Enterprise Scotland to Forestry and Land Scotland on 1 April 2019. This transfer was accounted for as a transfer by absorption, in line with HM Treasury Guidance and the 2019/20 Government Financial Reporting Manual. Net assets of £2,467m transferred into Forestry and Land Scotland's financial statements on 1 April 2019. The statement of comprehensive net expenditure records this as a transfer of assets and liabilities from Forest Enterprise Scotland. We identified several improvements in the way this was presented in the financial statements which were subsequently amended.

## Significant findings from the audit of the annual report and accounts

**35.** 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. Qualitative aspects include accounting policies, accounting estimates and financial statements disclosures. The significant findings from our audit are summarised in [Exhibit 3](#) below and include those in relation to qualitative aspects.

**36.** The accounts direction, which is issued by Scottish Ministers, has been included as an appendix in the annual report and accounts. A signed version of the accounts direction will be provided to Forestry and Land Scotland when government restrictions as a result of the Covid-19 pandemic are lifted. We have confirmed that the direction included in the annual report and accounts is consistent with that issued by the Scottish Government.

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### Exhibit 3

#### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Impact of Covid-19 on asset valuations</b></p> <p>External, professional valuers provide valuations that are applied in the measurement of Forestry and Land Scotland's biological assets, forest estate, land, dwellings and other buildings and financial assets. The total value of these assets at 31 March 2020 is £3.4bn.</p> <p>The final valuation reports provided by the Valuation Office Agency (District Valuer), Galbraith, Wardell Armstrong, Johnston, Poole and Bloomer and Avison Young all include a 'material valuation uncertainty' clause. These highlight that a higher degree of caution should be attached to each valuation than would normally be the case.</p> <p>The unaudited accounts referred to the impact of Covid-19 being considered where possible in arriving at accounting estimates and judgements. No specific reference to the clause in the valuation reports, or the impact on the asset valuations was included.</p>	<p>We discussed this with management who agreed to include further disclosure in Note 2 'Critical accounting estimates and judgements.' The revised disclosure recognises that, as a result of the material valuation uncertainty, less certainty, and a higher degree of caution should be attached to the valuations than would normally be the case.</p> <p>An Emphasis of Matter paragraph was added to the independent auditor's report as we believe the disclosure is fundamental to users' understanding of the accounts. The audit opinion is not modified in respect of this matter.</p> <p>We have sought and received the Accountable Officer's assurances on management's assessment of the fair value of assets in the ISA 580 letter of representation.</p>
<p><b>2. Valuation of biological assets and the forest estate</b></p> <p>The annual accounts record biological assets of £1,962m and forest estate assets of £1,086m.</p> <p>A review of the processes and methodology for the valuation of biological assets was undertaken by Forestry and Land Scotland following transition.</p> <p>This review, undertaken in partnership with the District Valuer, identified a valuation methodology reflective of Forestry and Land Scotland's circumstances and the nature of assets held. It has also provided clarity over the information provided by the District Valuer and its application when</p>	<p>We worked closely with management throughout 2019/20 and reviewed the proposed calculation methodology. The calculations underpinning the biological asset and forest estate valuations as at 31 March 2020 were substantively tested as part of our audit review.</p> <p>We reviewed correspondence between management and the District Valuer and discussed matters directly with him during the course of the audit.</p> <p>On the basis of the work undertaken we were able to conclude that the valuations of biological assets and forest estate as recorded in the annual report</p>

calculating the asset values. The methodology also affects the forest estate valuation, when applied to the calculation of year-end asset values.

We welcome this review, which reflects recommendations previously made to Forest Enterprise Scotland in the lead up to transition.

We recommend that management continue to review the valuation methodology and ensure ongoing dialogue with the valuer. This is particularly important as valuations are derived from market prices and are therefore subject to market volatility.

and accounts are reasonable and are a fair reflection of the value as at 31 March 2020.

We have requested and received assurances from the Accountable Officer in the ISA 580 letter of representation that the assumptions applied in the valuation have been reviewed and considered appropriate.



[Recommendation 1 - Appendix 1](#)

### 3. Valuation of timber inventories

Timber inventories consist of timber stocks (timber awaiting uplift) and work in progress (felled timber not yet extracted from the forest).

Management undertook a review of the methodology for valuing timber inventory during 2019/20.

The review resulted in inventories being valued based on the contract values for which the timber is subsequently sold for, based on information held in the Sales Recording Package (SRP). Work in progress is also valued in this way but with a deduction based on actual extraction and forwarding costs.

Management also received confirmation of the applicability of the revised approach from an independent third party.

We discussed and reviewed the change in methodology with Forestry and Land Scotland. We reviewed the inventory balances at 31 March 2020 as part of our year-end audit work.

We are satisfied that the methodology is in line with the accounting standards, and results in a reasonable valuation of the inventory balance at 31 March 2020.

### 4. Financial management

Audit testing and subsequent discussions with management identified expenditure of £1.2m relating to goods and services received by Forest Enterprise Scotland but which had not been recognised in 2018/19. The amounts were paid and accounted for in 2019/20 by Forestry and Land Scotland.

Management advised that this was an isolated issue which arose as a result of the change in mailbox used to process invoices during the transition from Forest Enterprise Scotland to Forestry and Land Scotland.

Expenditure was appropriately recognised in 2019/20. We undertook additional work to confirm that this was an isolated incident, including:

- increased cut-off testing of expenditure around the 2018/19 and 2019/20 financial year ends. No additional errors were identified.
- additional expenditure testing on transactions throughout 2019/20. No additional issues were identified in respect of the accounting for expenditure.

### 5. Impairment of assets under construction

Assets under construction were impaired by £936,000. As part of a review of these assets, management identified costs which had been incorrectly coded or had not been transferred when works were completed. As these assets had subsequently been revalued, these costs were already reflected within operational assets (dwellings and other buildings).

We reviewed the action taken by management and are content that the value of the works has been reflected in the carrying value of the buildings. We obtained confirmation that the assets had been subject to revaluation subsequent to the spend occurring. This provided assurance that the carrying value accurately reflects costs incurred.

We agree with management's treatment of this as an impairment charge.

Costs being reflected in both assets under construction and operational assets resulted in the total non-current assets value being overstated.

## 6. Provision for dilapidations

The unaudited accounts did not recognise a provision for the dilapidation of leased office accommodation at Silvan House. Forestry and Land Scotland are the lease holders for this property and are therefore liable for any dilapidations and other costs associated with the lease.

We discussed the lease arrangements and the relevant costs with management, as well as the accounting treatment of these. An adjustment was made, and the audited accounts recognise a provision of £3.0m in respect of the lease dilapidations.

We discussed this issue with management and reviewed the basis of the provision made in the audited accounts. We concluded that the provision was calculated on a reasonable basis and is an accurate reflection of Forestry and Land Scotland's liability at this time. Management should continue to assess their liability in respect of this lease and adjust the provision accordingly.

We have requested and received assurances from the Accountable Officer in the ISA 580 letter of representation that provisions have been recognised in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

## 7. Trade and other payables: untaken leave accrual

The financial statements record an accrual for untaken leave at 31 March 2020 (£1.39m). This represents the cost of untaken annual leave at year-end, which is carried forward to 2020/21. IAS 19 – Employee Benefits requires that untaken flexi-leave should be included in the accrual.

The accrual recognised at 31 March 2020 does not include flexi-leave balances.

We have reviewed the calculation basis for the accrual and based on the estimated value of untaken flexi-leave, we are satisfied this does not materially impact the 2019/20 accrual.

New arrangements for recording flexi-balances are being implemented, and management have agreed to include these in the untaken leave accrual in future years.

We have requested and received assurances from the Accountable Officer in the ISA 580 letter of representation that the omission of flexi-leave does not have a material impact on the accrual.

## 8. Employee expenses

Due to government restrictions in response to the Covid-19 pandemic, supporting documentation in relation to a number of employee expense claims could not be accessed.

We have requested and received assurances from the Accountable Officer in the ISA 580 letter of representation that employee expenses have been paid in accordance with established policies and procedures and have been authorised appropriately.

Source: Audit Scotland

## Identified misstatements of £3.8 million were adjusted in the accounts

**37.** Total misstatements identified from our audit work were £3.8m. These relate largely to the provision for dilapidations discussed in [Exhibit 3](#), and adjustments required to the valuation of non-current assets. We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety and do not indicate systemic error. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted for all misstatements identified.

**38.** The cumulative impact of the adjustments made is a decrease in net income for the year of £150,000 and a decrease in net assets of £1.4m.

## Our audit identified a number of other findings

39. Our audit identified a number of other matters to draw to your attention.

### Non-current assets

40. A number of historic practices and processes established by Forest Enterprise Scotland in relation to the accounting for non-current assets continued to be applied by Forestry and Land Scotland in 2019/20. It is important that Forestry and Land Scotland reviews the continuing suitability of these to its own circumstances. Specific areas for management's attention include:

- **Dwellings and other buildings revaluation:** a threshold of £30,000 is applied when revaluing dwellings and other buildings, except for deer larders. Given the high number of relatively low value assets owned by Forestry and Land Scotland, management do not consider it to be cost effective to carry out a revaluation of assets below this threshold. Management should review the appropriateness of the capitalisation threshold given the number of assets and value currently excluded from the revaluation process.
- **Infrastructure assets:** expenditure on infrastructure assets is not recognised in the value of non-current assets on the statement of financial position. Management are of the view that any increase in valuation of the forest estate or biological asset as a result of the contribution of infrastructure assets will be recognised in the valuation of those assets.
- **Vehicles, machinery and equipment (VME):** the revaluation exercise for VME assets is extensive and resource intensive. We are aware that a review of this exercise is intended for 2020/21 in advance of the full revaluation due at 31 March 2021.
- **Intangible assets:** all costs incurred on intangible assets such as software packages and licences are expensed to the statement of comprehensive net expenditure as they are incurred. IAS 38 – Intangible Assets states that an intangible asset shall be recognised if, and only if:
  - It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
  - The cost of the asset can be measured reliably.



### Recommendation 2

**Accounting policies applied in the accounting for non-current assets should be reviewed to ensure they remain appropriate to Forestry and Land Scotland. Particular attention should be given to dwellings and other buildings, infrastructure, vehicles, machinery and equipment and intangible assets where approaches inherited from Forest Enterprise Scotland have yet to be reviewed.**

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### Appendix 1, Recommendation 2

41. Forestry and Land Scotland are in the process of procuring a new financial system. Currently, the information used to inform the non-current assets disclosures in the accounts is prepared from a number of different workbooks and schedules. Management should consider the implementation of an asset register as part of the new financial system. This would reduce the need for manual intervention in the accounts preparation, therefore reducing the risk of error or inaccuracy.

## Financial assets: investment in Forest Holidays / Camping in the Forest

**42.** Forestry and Land Scotland hold investments in Forest Holidays and Camping in the Forest. These investments are accounted for as financial assets under IFRS 9 – Financial Instruments and disclosed in Note 7 of the financial statements.

Forest Enterprise England, National Resources Wales and a third-party commercial investor also have investments in these bodies.

**43.** The governance and accounting arrangements for these investments are based on legacy agreements relating to the former UK-wide Forestry Commission. We have been advised that Forestry and Land Scotland intend to increase their investment in Camping in the Forest in 2020/21. It is therefore important that the governance and accounting for financial assets are clearly defined between all parties. Management has agreed to work with their public sector partners to review the governance arrangements around these investments in 2020/21 and to clearly document the arrangements in place together with the accounting treatment. This should improve governance over these investments.



### Recommendation 3

**A review of the arrangements in place for the governance and accounting for the investments in Forest Holidays and Camping in the Forest should be carried out. The arrangements, including those relating to the ownership of the investments, should be formalised.**

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#### Appendix 1, Recommendation 3

**44.** IFRS 9 requires equity investments, such as Forestry and Land Scotland's financial assets to be valued at fair value through profit and loss. In the unaudited accounts, the loss on the revaluation of financial assets was accounted through other comprehensive net expenditure in the statement of comprehensive net expenditure. Following audit review this was subsequently adjusted and recognised in net expenditure. This resulted in a reduction in net income for the year of £443,000 together with a transfer of £1.64m from the revaluation reserve to the general fund in accordance with IFRS 9.

## Data analytics were used in audit sampling

**45.** We used data analytics as part of our planned audit approach. Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as *“the science and art of discovering and analysing patterns, deviations and inconsistencies ... in the data underlying ... an audit ... for the purpose of planning and performing an audit.”* Such techniques provide ways of dealing with high volumes of transactions as well as complexity. They also enhance audit quality and efficiency.

**46.** As part of our work, we obtained detailed transaction downloads from the general ledger and the Sales Recording Package (SRP). The ledger data was used for substantive testing during the financial statements audit and was subjected to automated routines to identify unusual or risky transactions for further investigation. The SRP data was compared to the ledger data in order to provide assurance over the completeness and accuracy of the accounting records and was used to substantively test timber income. The procedures carried out provided increased assurance over the completeness of the information in the accounts, and the allocation to account areas.



# Part 2

## Financial management



### Main judgements

**Forestry and Land Scotland operated within its budget in 2019/20.**

**There is scope for improvement in budget monitoring arrangements to ensure budget holders are fully aware of their responsibility for financial management.**

**There were some weaknesses identified in the operation of internal controls during 2019/20. However no significant weaknesses were identified which could affect Forestry and Land Scotland's ability to record, process, summarise and report financial and other relevant information.**

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

### Forestry and Land Scotland operated within budget in 2019/20

**47.** The main financial objective for Forestry and Land Scotland is to ensure that the financial outturn for the year is within the agreed budget for the year.

**48.** Regular budget monitoring reports are prepared by Forestry and Land Scotland. The report at 31 March 2020 records net managed expenditure of £8.0m against a net managed expenditure budget of £26.0m, an underspend of £18.0m against budget.

**49.** Expenditure was £6.6m less than planned. This was largely due to the impact of Covid-19 late in the financial year which resulted in restricted access to, or closed work sites, work to prepare land for planting being put on hold, and tree stock not being delivered.

**50.** Income was in excess of budget (£25.0m). The main reasons for this include timber income being in excess of budget (£10.0m) due to long-term contract negotiations and reduced competition in the final quarter of the year leading to an increase in average unit prices. In addition, land sales were in excess of budget, largely due to a significant forest disposal in year.

### Forestry and Land Scotland also receive funding from the Scottish Government

**51.** Forestry and Land Scotland receive an annual subsidy from the Scottish Government. In 2019/20 they received £20.7m. During the year, £1.3m was returned to Scottish Government as it relates to estimated dilapidations cost of the Silvan House property. Of the remaining £19.4m, £3.5m was deferred for use in future years. The statement of comprehensive net expenditure records government grant income of £15.9m.

### The financial statements record net assets of £3.5 billion

**52.** The statement of financial position summarises what is owned and owed by Forestry and Land Scotland. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows

how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

**53.** The financial statements record net assets of £3,510m, an increase of £1,043m from 31 March 2019. This is largely attributable to impact of the revaluation of biological assets and the forest estate as discussed in [Exhibit 3](#) above.

### **There is scope for improvement in budgetary processes**

**54.** We reviewed Forestry and Land Scotland's budgetary control and monitoring arrangements. From our review of budget monitoring reports, review of committee papers and minutes and attendance at Audit and Risk Committee meetings, we concluded that senior management and members receive regular, timely and up to date information on the financial position.

**55.** The current budget monitoring reports do not give a full picture of income received and exclude the annual subsidy limit from the Scottish Government when reporting income. The expenditure funded by the subsidy is reflected in the reporting of expenditure against budget.

**56.** We also noted some scope for improvement in budgetary processes. As discussed in [Exhibit 3](#), £1.2m of expenditure was not recognised in 2018/19 by Forest Enterprise Scotland. The amounts were paid and accounted for in 2019/20 by Forestry and Land Scotland. We are aware of the ongoing work being undertaken to support budget holders in effectively monitoring their performance against budget.

**57.** We shall continue to monitor and review the processes in place for budgetary control and monitoring as part of our 2020/21 audit.



#### **Recommendation 4**

**Management should review the processes in place for budgetary control. Particular attention should be given to the support from the finance team to budget holders across the organisation.**

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#### **Appendix 1, Recommendation 4**

### **Systems of internal control operated effectively in most areas**

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

**59.** Our findings from the review of systems and internal controls are included in the management report presented to the Audit and Risk Committee on 28 September 2020. The findings from our review of internal controls informed our year-end substantive testing.

**60.** Year-end testing of journals identified one instance where there was no segregation of duties between the inputter and authoriser of the journal, and one instance where the segregation of duties could not be evidenced. Management should ensure appropriate segregation of duties in the processing of journal entries. We have undertaken sufficient testing to obtain assurance over the journal entries processed.

**61.** Overall, we concluded that while there were weaknesses identified in the system of internal control, no significant weaknesses were identified that would

affect Forestry and Land Scotland's ability to record, process, summarise and report financial and other relevant data, resulting in a material misstatement in the financial statements.

### **We considered the work of internal audit**

**62.** Forestry and Land Scotland's internal audit function is carried out by the Scottish Government's Directorate for Internal Audit and Assurance. 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 2019/20 is that of 'reasonable assurance', which is defined as "some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature."

**63.** We reviewed Forestry and Land Scotland's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit. We assessed that we were able to place reliance on the work of internal audit and considered their work on risk management and corporate governance for our 2019/20 wider dimension audit responsibilities.

### **Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate**

**64.** 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 and effective arrangements in place.

**65.** We reviewed the arrangements to maintain standards of conduct. This included a review of the staff handbook, members' code of conduct and the whistleblowing policy. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

**66.** We concluded that there are appropriate arrangements are in place for the prevention and detection of fraud, error and irregularities. We are not aware of any specific issues that we are required to bring to your attention.

### **No instances of fraud were identified from the most recent National Fraud Initiative exercise**

**67.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Computerised techniques are used 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.

**68.** The most recent NFI exercise is based on findings from information submitted jointly by the former Forestry Commission Scotland and Forest Enterprise Scotland in 2018. We note that the updating of the NFI system is complete and all required information and outcomes have been recorded.

**69.** All high-risk recommendations were investigated, and no instances of fraud were identified as a result of this exercise. Forestry and Land Scotland have now assumed responsibility for their own data submission and matches investigation.

**70.** Audit Scotland published [The National Fraud Initiative 2018/19](#) in July 2020. This report notes that since the previous NFI report in June 2018, outcomes valued at £15.3m have been recorded. Cumulative outcomes from the exercise in Scotland since the first exercise in 2006/07 are £143.6m. NFI outcomes in Scotland fell by £2.4m to £15.3m in the 2018/19 exercise, despite an increase in

participating bodies. This may be as a result of less fraud and error in the system, stronger internal controls or less effective detection of fraud and error.

**71.** The report recommends that all participants should be aware of emerging fraud risks, for example due to Covid-19, and take appropriate preventative and detective action.

**72.** All audit committees, together with staff leading the NFI exercise should review the NFI self-appraisal checklist to ensure they are fully informed of the planning and progress in the 2020/21 NFI exercise.

### **Appropriate arrangements are in place to prevent or detect fraud within the procurement function**

**73.** Our consideration of financial management includes evaluating the arrangements in place for preventing and detecting fraud and corruption. Instances of fraud and corruption can be particularly prevalent in the procurement function.

**74.** We carried out a high-level review of the procurement processes in place at Forestry and Land Scotland, including the arrangements to prevent fraud and corruption.

**75.** A significant amount of Forestry and Land Scotland's operating expenditure is based on procured contracts (approximately £73m/57% of the 2019/20 operating budget). A new procurement strategy was developed on establishment of Forestry and Land Scotland and covers the period 2019-22. There are around 250 high value contracts and framework agreements in place, alongside several hundred lower value contracts.

**76.** The procurement process is well established. Forestry and Land Scotland use a combination of Scottish Government Collaborative and their own regulated tender process. For regulated tenders (in excess of £50,000 for goods/services and £250,000 for works), the Scottish Government Public Contracts Scotland (PCS) portal is used. Un-regulated tenders of below £50,000 are delegated to cost centre managers, with support from the procurement team, and the PCS Quick Quotes module is used.

**77.** A [Red Flags – Procurement](#) document was published by Audit Scotland in October 2019. It sets out a number of 'red flags' to consider and outlines a number of controls across the different stages of the tendering and procurement process. These include training and staff awareness of procurement processes and procurement fraud, maintenance of a centralised contract register, maintenance and monitoring of registers of interest, segregation of duties, spend analysis, appropriate and defined authorisation limits and robust tender documentation. The controls and processes in place at Forestry and Land Scotland were found to be in line with those included in the red flags paper.

**78.** Forestry and Land Scotland have not yet been subject to the Procurement and Commercial Improvement Programme (PCIP) assessment process. This is a two-year cyclical process and Forestry and Land Scotland have requested a 'mock' assessment for the end of the 2020 calendar year. The new procurement strategy should be fully embedded by this stage, and the 'mock' assessment will provide an early indication of progress and to identify where improvements can be made in advance of their formal PCIP assessment.

**79.** Based on the high-level review undertaken, we concluded that appropriate arrangements are in place to address the risk of fraud within the procurement function.

# Part 3

## Financial sustainability



### Main judgements

**Forestry and Land Scotland has yet to develop a longer-term financial strategy. This should be aligned to the corporate plan and supported by clear and detailed financial plans.**

**Work is progressing to develop a more sustainable business model which is based on commercial activities. This is particularly important given the uncertainty around the financial impact of Covid-19 and EU withdrawal.**

Financial sustainability looks forward to the medium and longer term to consider whether a body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Budgeted net expenditure for 2020/21 is £19.8 million

**80.** Forestry and Land Scotland's expenditure is largely met by income generated by its trading activities, together with an annual subsidy from the Scottish Government.

**81.** Forestry and Land Scotland's budgeted net expenditure for 2020/21, excluding the annual subsidy, is £19.8m (2019/20: £29.2m). The annual subsidy for 2020/21, as set out in the Scottish Government's 2020/21 budget is £17.2m, an increase of 9.6% from the initial 2019/20 funding (£15.7m).

**82.** The volatility of the timber market and the impact on timber income continues to present challenges in maintaining the financial sustainability of Forestry and Land Scotland. Careful management of finances, including cash balances, is required in order to successfully manage the unpredictability of the financial pressures faced by Forestry and Land Scotland.

**83.** For the purposes of its accounts, Forestry and Land Scotland is classified by the Office of National Statistics as a public corporation. This classification is based on the nature of activity within the business and the high proportion of business trading. The classification enables the agency to build and retain financial reserves across financial years to sustain and deliver outcomes.

### Work continues to develop a longer-term financial plan

**84.** Longer-term financial planning was at an early stage of development but was deferred by Forest Enterprise Scotland pending transition to Forestry and Land Scotland.

**85.** During 2019/20, management have continued to progress work to identify a long-term sustainable business model which is flexible and resilient. The aim is to complete and maintain a ten-year financial plan, supported by scenario planning to support the longer-term financial planning and sustainability of the organisation.

**86.** Financial sustainability has been recognised as one of the key risks facing Forestry and Land Scotland and there has been regular reporting to the Executive Team on the importance of maintaining financial sustainability. As part of this work, recognition has been given to ensuring the agency is not reliant on the annual subsidy, and that using cash balances to supplement expenditure is not sustainable in the longer-term.

**87.** A number of costs have increased since the conclusion of forestry devolution including, costs associated with the end of the shared services with the Forestry Commission and additional overheads from becoming an agency of the Scottish Government (for example, aligning employee terms and conditions).

**88.** The longer-term financial impact of the Covid-19 pandemic, is as yet unknown but is expected to have significant impact on public spending, as discussed at paragraphs 93 to 95 below. This, coupled by the potential impact of EU withdrawal on the timber market and exchange rates, has the potential to adversely affect Forestry and Land Scotland's income from commercial activities. These factors further highlight the need for a robust longer-term financial strategy. This should be supported by clear and detailed financial plans and align with the corporate plan outcomes.



### Recommendation 5

**Forestry and Land Scotland should prepare a longer-term financial strategy, supported by clear and detailed financial plans. This should align with the corporate plan outcomes and will help support the financial sustainability of the organisation.**

#### Appendix 1, Recommendation 5

### Cash balances were £62.1 million at 31 March 2020

**89.** The statement of financial position at 31 March 2020 reports cash balances of £62.1m. The increase in cash balances reflect continuing increases in income generating activities.

**90.** Forestry and Land Scotland are permitted to hold cash reserves, in line with the reserves policy set out in their framework document. The policy recognises that financial reserves exist to manage uncertainty and service long-term needs.

**91.** Not all reserves held are readily available for spending. Forestry and Land Scotland have recognised two areas of reserves in the policy. Restricted funds are those needed for a specific purpose, and unrestricted reserves are those which can either be earmarked where the income is tied to a specific activity, or liquidity reserves that enable the agency to manage the risks it faces. Liquidity reserves have been aligned at three times the monthly salary bill.

**92.** As referred to in the annual report and accounts, Forestry and Land Scotland have identified restricted reserves of £29.0m, earmarked reserves of £10.8m with the remainder being held for liquidity purposes.

### Covid-19 will have significant consequences for public spending in Scotland

**93.** Audit Scotland published a briefing paper in August 2020, [Covid-19: Implications for public finances in Scotland](#). This paper highlights the unprecedented impact of the pandemic on public finances. Scottish and UK governments have responded quickly, providing additional funding for public services and support for individuals, businesses and the economy.

**94.** Between March and July 2020, the Scottish Government announced over 90 spending and tax measures to help support business, public services and individuals during the pandemic. These measures totalled over £5.3bn, and an additional £4.8bn additional spend on Covid-19 related measures is estimated for 2020/21.

**95.** Forestry and Land Scotland will need to continue to closely monitor the impact of the Covid-19 pandemic on its financial sustainability. This may impact both the funding received from the Scottish Government, and the income generated from commercial activities.

# Part 4

## Governance and transparency



### Main judgements

**Forestry and Land Scotland have established appropriate arrangements to support governance, accountability and scrutiny. These arrangements supported effective working relationships.**

**Additional governance arrangements were established in response to the Covid-19 pandemic. The response to the pandemic is being embedded in existing arrangements as part of the 'business as usual' activities of Forestry and Land Scotland.**

**Corporate and business plans were published in line with the required timescales. Corporate outcomes are aligned to the Scottish Government's National Performance Framework.**

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.

### New governance arrangements were established by Forestry and Land Scotland

**96.** The devolution of forestry to Scotland concluded on 1 April 2019, and the cross-border arrangements for the management of the forest estate governing the preceding organisation ceased. New governance arrangements were established by Forestry and Land Scotland and continue to embed within the organisation.

**97.** The Chief Executive of Forestry and Land Scotland, as Accountable Officer, is personally accountable to Scottish Ministers for the performance of the organisation and the delivery of its functions. The Chief Executive is supported by the Strategic Board, the Executive Team and the Audit and Risk Committee.

**98.** The Strategic Board is comprised of Executive Directors and Non-Executive Advisors. The role of the Strategic Board is to support and advise the Chief Executive on matters such as the organisation's strategic vision, the effectiveness of risk management arrangements, governance and internal control and the systems to identify emerging issues that may impact the operation or reputation of the organisation.

**99.** The Executive Team supports the Chief Executive with the day to day running of Forestry and Land Scotland, and provides advice and knowledge on professional, technical and regional matters.

**100.** The Audit and Risk Committee role is to provide advice and constructive challenge to the Chief Executive, and to provide support in relation to his responsibilities regarding risk management, control, governance and associated assurance to support year-end accountability. We attend all Audit and Risk Committee meetings and can conclude that there is appropriate scrutiny from members.

**101.** In August 2020, Audit Scotland published [Covid-19: Guide for audit and risk committees](#). This report notes that the pandemic has highlighted some of the key strengths of public-sector bodies, including agility and partnership working, however it has also exacerbated many pre-existing risks and challenges.



**102.** It highlights the crucial role of audit and risk committees in providing effective scrutiny and challenge. The report focuses on the short-term challenges facing public bodies in the response phase of the pandemic and highlights key areas for focus which include internal controls and assurance, financial management and reporting, governance and risk management.

**103.** We encourage Audit and Risk Committee members review this report, including the suggested questions in order to further enhance the level of scrutiny and challenge by the committee.

**104.** We conclude that, overall, Forestry and Land Scotland have established appropriate arrangements to support governance, accountability and scrutiny. The governance arrangements in place supported effective working relationships. We shall continue to review these arrangements over the period of our audit appointment, and as the organisation matures.

### Assurances are provided to the Accountable Officer

**105.** 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 with in the Scottish Public Finance Manual (SPFM) for the content of the governance statement.

**106.** The SPFM provides guidance on the content and format of the certificates of assurance that are provided to the Accountable Officer to support the signing of the governance statement. The SPFM sets out a model internal control checklist. Forestry and Land Scotland have prepared a tailored checklist that reflects their internal control processes. The coverage of the checklists and assurance certificates have been extended to more fully align with the SPFM. Management have advised that the assurance process will now be completed quarterly, as opposed to annually, from 2020/21.

### Corporate and business plans were published in line with the framework document

**107.** The [Forestry and Land Scotland Corporate Plan 2019-22](#) was published in October 2019. This plan sets out the organisation's outcomes and targets, high-level performance indicators and gives an overview of how these outcomes will be delivered over the period, in line with the Scottish Government's Purpose and National Outcomes set out in the National Performance Framework.

**108.** Five corporate outcomes have been developed; all of which are reliant on each other and support the delivery of Forestry and Land Scotland's vision and mission, and ultimately the Scottish Government's outcomes. These outcomes are:

- supporting a sustainable rural economy;
- looking after Scotland's national forests and land;
- national forests and land for visitors and communities;
- a supportive, safe and inclusive organisation; and
- a high performing organisation.

**109.** The [Forestry and Land Scotland Business Plan 2020-21](#) was published in April 2020. This sets out how the organisation will continue to deliver on the corporate plan and move closer to meeting the corporate outcomes.

**110.** The plan refers to the unprecedented circumstances as a result of the Covid-19 pandemic. It notes that the actions set out in the plan may not be deliverable depending on the required response and prioritisation of activities due to the impact of the pandemic.

## New risk management arrangements were introduced

**111.** Forestry and Land Scotland undertook a review of risk management arrangements inherited from Forest Enterprise Scotland during 2019/20. A new risk management policy and framework was published in January 2020. This sets out the approach to risk management and outlines the key objectives, strategies and responsibilities for the management of risk across the organisation.

**112.** Risks are identified at three levels (corporate, functional and project), with risk registers developed and maintained at each level.

**113.** A workshop on the new risk management arrangements was incorporated into the November 2019 meeting of the Audit and Risk committee. Training was planned for all staff members; however, this has been delayed due to the change in working arrangements as a result of Covid-19. All Executive Team members and senior staff have completed training on the new arrangements, with training for other staff being delivered when possible to do so.

**114.** We shall review the effectiveness of the new risk management arrangements over the course of our 2020/21 audit.

## Internal audit reviewed corporate governance arrangements

**115.** Internal audit carried out a 'Corporate Governance Health Check' as part of their 2019/20 work programme. An overall reasonable assurance opinion was provided, which means '*there are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature.*'

**116.** Four medium priority recommendations were made by internal audit, including a review of the current terms of reference for both the Strategic Board and Executive Team to ensure clarity of roles and responsibilities, and lines of decision-making.

**117.** Internal audit also highlighted areas of good practice in Forestry and Land Scotland's governance arrangements, including a governance structure that is underpinned by key policies and documentation, robust risk management arrangements and a clear corporate and business planning process that continues to evolve.

## Openness and transparency could be further enhanced

**118.** There continues to be a focus on how public money is used and on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

**119.** Executive Team, Strategic Board and Audit and Risk Committee minutes are all publicly available on the Forestry and Land Scotland website. Openness and transparency could be improved further by extending the availability of meeting papers to the public with confidential or commercially sensitive information withdrawn or redacted as appropriate.

## Additional governance arrangements were established in response to Covid-19

**120.** As discussed at paragraphs 6 to 5 above, in March 2020, as a result of the Covid-19 lockdown measures, all but essential harvesting operations ceased, and the majority of Forestry and Land Scotland staff transitioned to home-working. In response to the pandemic, the existing governance structure was reviewed.

**121.** A Covid Response Team was set up in order to support the organisational response to the pandemic. This team co-ordinated the organisation-wide response and communications, policy impact and liaised with the Scottish Government and other organisations. They were responsible for ensuring decisions were taken as required, by the relevant functional lead. The team met daily throughout the pandemic and held weekly meetings with the functional leads and regional managers. These weekly meetings were the line of communication to the Executive Team and Accountable Officer. More detailed, monthly updates were discussed at the formal Executive Team meetings.

**122.** The Covid Response Team ceased to operate in August 2020, as the focus shifted to the restart and recovery of the organisation. Covid-19 implications and response have become embedded in existing arrangements as the response to the pandemic becomes part of the 'business as usual' operations of Forestry and Land Scotland.

**123.** Management were aware of the potential impact of Covid-19 on the business income. Forestry and Land Scotland closely monitored customers' payment performance around the financial year end. A small number of customers were provided with extended credit terms. These have since reverted back to normal. We note that all timber customers are now on standard payment terms. No significant impact on income levels has been experienced as a result of the pandemic.

**124.** The pandemic highlighted that the existing business continuity and disaster recovery plans required strengthening in order to support the organisation. An Organisational Resilience Board has since been established and sits under the remit of the Director of Business Services. This board will meet regularly in order to ensure the organisation remains well equipped to respond to any emerging issues. The Head Office and regional business continuity plans and disaster recovery plans have since been updated.

**125.** A briefing paper was published by Audit Scotland in July 2020: [Covid-19: emerging fraud risks](#). This paper sets out a range of fraud risks emerging as a result of the pandemic, and what public bodies might do to help reduce these risks. It aims to raise awareness of these risks with public bodies and their auditors; and support them in identifying and managing these risks, ensuring that sound governance and controls are in place.

**126.** Forestry and Land Scotland has been pro-active in dealing with the changes to its operating environment and establishing the required governance arrangements to effectively respond to these changes. However, the scale and pace of change as a result of Covid-19, and the continuing impact of this, poses a risk to the control environment. Management should ensure that processes remain effective, and that there is sufficient, and well-documented governance in place to inform and support decision making.



### Recommendation 6

**Forestry and Land Scotland should ensure that processes and controls remain effective. Governance arrangements should continue to inform and support decision making during the period of uncertainty as a result of Covid-19.**

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# Part 5

## Value for money



### Main judgements

Forestry and Land Scotland are reviewing their activities against best value principles.

Forestry and Land Scotland had overall arrangements in place to support performance management. It met thirteen of its fifteen key performance indicators in 2019/20.

The presentation of the performance report is of a good quality. Further improvements could be made by linking achievements more clearly to the income received and linking more effectively between the individual sections of the report.

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

### Brest value principles are being embedded

**127.** [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. The guidance sets out the key principles of best value and the requirement to have a systematic approach to self-evaluation and continuous improvement.

**128.** Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure best value. The Forestry and Land Scotland Framework Document notes that the Accountable Officer 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.

**129.** A recent review of activities was undertaken by management to assess the progress and evidence against each of the key themes set out in the SPFM's guidance on best value (vision and leadership, effective partnerships, governance and accountability, use of resources and performance management). This assessment also highlighted where gaps remained in demonstrating best value. A number of improvement actions were identified including:

- better alignment of the business planning and financial planning processes; and
- better reporting of the annual and corporate performance reports to stakeholders and the public.

**130.** Work continues to develop a Best Value Strategy to ensure that the achievement of best value embeds within the organisation. This will include the development of a detailed action plan, and governance arrangements around monitoring and reporting of best value to provide assurances to the Chief Executive as Accountable Officer.

**131.** We are pleased to note the pro-active approach taken by management to the assessment and demonstration of best value.

## Services are delivered on behalf of Scottish Forestry

**132.** A service level agreement, covering the period 1 April 2019 to 31 March 2022 was agreed between Forestry and Land Scotland and Scottish Forestry following transition. A number of services, including human resources, learning and development, health, safety and wellbeing and digital services, are delivered by Forestry and Land Scotland on behalf of Scottish Forestry. This demonstrates a contribution to best value within the public sector and the efficient use of resources.

## Arrangements are in place to support effective performance management

**133.** Corporate performance and ‘dashboard’ reports are published quarterly and are available on the Forestry and Land Scotland website. These reports provide an overview of the work of the organisation and the progress made towards meeting its corporate objectives. The reports cover the four business functions: land management, estate development, business services and corporate services. These reports provide information on performance against the outcomes and key performance indicators (KPIs) together with narrative around key issues.

**134.** Performance against these outcomes is reported in Forestry and Land Scotland’s 2019/20 annual report and accounts and reflect the KPIs published in the corporate plan. Due to the timing of the publication of the corporate plan and to take account of Scotland’s Forestry Strategy 2019-2022 (published February 2019), the KPIs came into effect from 1 October 2019.

**135.** Fifteen KPIs were agreed, across the five corporate outcomes. Two of these fifteen KPIs were not met during the period. The target area of woodland creation (400ha) was not met due to a combination of poor conditions in early 2020, and then the cessation of non-essential operations as a result of Covid-19. The other related to the condition of designated sites which had been adversely affected by overgrazing by red deer.

**136.** We conclude that Forestry and Land Scotland have overall arrangements in place to support performance management.

## The presentation of the performance report is of a good quality, but there is scope to further improve the content

**137.** 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 the report is to provide information on the organisation, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of 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.

**138.** We are pleased to note that there has been an improvement to the presentation of the performance report following audit recommendations made to Forest Enterprise Scotland in 2018/19. The report sets out the five corporate outcomes and progress against each of the fifteen KPIs underpinning these outcomes. As referenced at paragraphs 107 and 108 above, the outcomes are interlinked and are aligned to the Scottish Government’s outcomes and purpose per the National Performance Framework.

**139.** We concluded that the performance report met the requirements of the 2019/20 FReM, but that improvements could be made. These were discussed with management and some revisions were made to the performance report in the audited accounts. Further improvements could be made to the narrative to provide a more rounded picture of what has been achieved during the year linked into the income achieved and funding provided, and to better link between the individual

sections of the report. This could be enhanced further by increased use of diagrams and infographics and by better linking individual sections of the report.

**140.** Annex 5 of the 2019/20 FReM provides additional good practice guidance on narrative reporting. The annex refers to the use of trend data, balanced reporting, use of plain English, use of infographics and going beyond the minimum reporting requirements. Forestry and Land Scotland has adapted some of the above but there is scope to improve further by including, for example, more infographics and trend reporting.



### Recommendation 7

**The performance report should provide a more rounded picture of achievements during the year linked to funding received and should more effectively link between individual sections of the report. Further use of infographics should be made.**

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### [Appendix 1, Recommendation 7](#)

#### National performance audit reports

**141.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 several reports were published which may be of interest to Forestry and Land Scotland. These are outlined in [Appendix 3](#).

**142.** We provide regular progress reports and updates to the Audit and Risk Committee where we reference national performance reports that may be of interest to members.

# Appendix 1

## Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Valuation of biological assets and the forest estate</b></p> <p>A review of the processes and methodology for the biological asset and forest estate valuation was undertaken. This identified a valuation methodology reflective of circumstances and assets held.</p> <p><b>Risk:</b> These valuations are market based and subject to market volatility. There is an inherent risk that these values are misstated.</p>	<p>Management should continue to review the valuation methodology and ensure ongoing dialogue with the professional valuer.</p> <p><a href="#">Exhibit 3, Issue 2</a></p>	<p>Management agree that it is important to continue to ensure ongoing dialogue with the professional valuer.</p> <p>A meeting between Finance, Estate Developments and the valuer is to be scheduled for Winter 2020/21 to plan and discuss valuation work for the 31 March 2021 year end.</p> <p>Responsible officer – Head of Finance and Procurement</p> <p>31 March 2021 for completion</p>
2	<p><b>Accounting for non-current assets</b></p> <p>Neither infrastructure nor intangible assets are capitalised. Processes in place for accounting for vehicles, machinery and equipment are extensive. The valuation policy for buildings should be reviewed.</p> <p><b>Risk:</b> There is a risk that the value of non-current assets is not fairly stated.</p>	<p>Accounting policies applied in the accounting for non-current assets (NCA) should be reviewed to ensure they remain appropriate to Forestry and Land Scotland. Particular attention should be given to dwellings and other buildings, infrastructure, vehicles, machinery and equipment and intangible assets where approaches inherited from Forest Enterprise Scotland have yet to be reviewed.</p> <p><a href="#">Recommendation 2, Page 15</a></p>	<p>Management agree that the transition to Forestry &amp; Land Scotland (FLS) and the formation of a new Finance team gives way to an opportunity to review the accounting policies for their suitability for FLS.</p> <p>A review of NCA will be part of this.</p> <p>The detailed review of Biological assets, Forest Estate and Inventory accounting policies were prioritised in 2019/20, however the review of the remaining NCA areas remains to be a focus point for the Finance team.</p> <p>Responsible officer – Head of Finance and Procurement</p> <p>31 March 2021 for Vehicles, Machinery and Equipment review</p> <p>31 March 2021 for scoping of Infrastructure and Intangible Assets</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p><b>Financial assets</b></p> <p>The accounting treatment and governance of financial assets are based on legacy arrangements.</p> <p><b>Risk:</b> There is a risk that the assets are not fairly stated and that the governance arrangements are not effective.</p>	<p>A review of the arrangements in place for the governance and accounting for the investments in Forest Holidays and Camping in the Forest should be carried out. The arrangements, including those relating to the ownership of the investments, should be formalised.</p> <p><a href="#">Recommendation 3, Page 16</a></p>	<p>Management agree that the transition to Forestry &amp; Land Scotland (FLS) and the formation of a new Finance team gives way to an opportunity to review the accounting policies for their suitability for FLS.</p> <p>A review of Financial assets will also be part of this.</p> <p>Responsible officer – Head of Finance and Procurement</p> <p>31 March 2021 for completion</p>
4	<p><b>Budgetary processes</b></p> <p>Budget monitoring should ensure that all transactions are recognised appropriately.</p> <p><b>Risk:</b> There is a risk that budgetary control procedures are not effective.</p>	<p>Management should review the processes in place for budgetary control. Particular attention should be given to the support from the finance team to budget holders across the organisation.</p> <p><a href="#">Recommendation 4, Page 18</a></p>	<p>Management acknowledge the recommendation and agree improvements are needed.</p> <p>The budgetary issue identified related to 2018/19 and work has been undertaken during 2019/20 to improve the support from the finance team to budget holders across the organisation.</p> <p>This work will continue in 2020/21 to further improve and embed budgetary controls and processes.</p> <p>Responsible officer – Head of Finance and Procurement</p> <p>31 March 2021 for completion</p>
5	<p><b>Longer-term financial planning</b></p> <p>A longer-term financial plan has yet to be developed for Forestry and Land Scotland. This was deferred pending transition to the new agency.</p> <p><b>Risk:</b> 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>Forestry and Land Scotland should prepare a longer-term financial strategy, supported by clear and detailed financial plans. This should align with the corporate plan outcomes and will help support the financial sustainability of the organisation.</p> <p><a href="#">Recommendation 5, Page 22</a></p>	<p>The Executive Team are in the process of developing a Financial Sustainability Action Plan that forms part of the existing Financial Strategy and aligns to our corporate plan. It will set out the specific actions/activities that the organisation will undertake to ensure that the organisation remains financially sustainable long term.</p> <p>Responsible officer – Chief Executive</p> <p>31 March 2021 to complete the development of the plan.</p>





No.	Issue/risk	Recommendation	Agreed management action/timing
6	<p><b>Impact of Covid-19</b></p> <p>The uncertainty as a result of the Covid-19 pandemic is unprecedented. It poses an inherent risk to the processes and controls in place at Forestry and Land Scotland.</p> <p><b>Risk:</b> There is a risk that processes and controls are ineffective.</p>	<p>Forestry and Land Scotland should ensure that processes and controls remain effective. Governance arrangements should continue to inform and support decision making during the period of uncertainty as a result of Covid-19.</p> <p><a href="#">Recommendation 6, Page 27</a></p>	<p>Management agree with the recommendation. COVID-19 and FLS' s ongoing response to it, is discussed by the Executive Team on a weekly basis as part of organisation's 'hot' issues briefing.</p> <p>As part of those discussions Governance arrangements are discussed and any requirements for change are subsequently agreed.</p> <p>Responsible officer – Chief Executive</p> <p>Ongoing</p>
7	<p><b>Performance report</b></p> <p>The performance report could be improved by more effectively linking the individual sections of the report and providing more information on the achievements during the year linked to the funding provided. Further use of diagrams and infographics could be made.</p> <p><b>Risk:</b> There is a risk that the performance report does not maximise its potential as a means of communicating performance, and 'telling the story' to stakeholders.</p>	<p>The performance report should provide a more rounded picture of achievements during the year linked to funding received and should more effectively link between individual sections of the report. Further use of infographics should be made.</p> <p><a href="#">Recommendation 7, Page 30</a></p>	<p>Management agree with the recommendation. Further improvement/enhancements will be made in future years.</p> <p>Responsible officer – Director of Corporate Services</p> <p>Ongoing.</p>

### Follow up of prior year recommendations made to Forest Enterprise Scotland

1	<p><b>Revaluation of biological assets</b></p> <p>The application of independently assessed indices to biological assets has added £192m to their value.</p> <p>This is a significant increase particularly as the assets were professionally revalued in the prior year.</p> <p><b>Risk:</b> There is a risk that non-current assets are not valued appropriately in the years between full revaluations.</p>	<p>Management should:</p> <ul style="list-style-type: none"> <li>review the valuation processes and methodology</li> <li>engage in early dialogue with the valuer to ensure clarity of expectations</li> <li>ensure ongoing dialogue and challenge with the valuer</li> </ul> <p>Management together with the valuer, should assess whether the process continues to be appropriate in supporting the valuation of the asset base.</p>	<p>As referenced in <a href="#">Exhibit 3</a> above, a review of the valuation of biological assets was undertaken during 2019/20.</p> <p>Management should keep the valuation methodology under review and continue to engage with the professional valuer.</p> <p>Refer to point 1 above.</p> <p><b>Ongoing</b></p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
		Management should also ensure they are satisfied with the basis of the valuation and the assumptions applied.	
2	<p><b>Trades receivables: bad debt provision</b></p> <p>Trades receivables of £21.1m are recorded in the annual report and accounts.</p> <p>Management have assessed that only £0.25m of this balance should be impaired.</p> <p><b>Risk:</b> There is a risk that income is overstated due to the outstanding debt not being paid.</p>	Management should review the level of debt and the probability of default to ensure impairment is recognised where appropriate.	<p>We reviewed the arrangements in place for reviewing aged debt and considered management's assessment of the year-end receivable balance. Particular attention was given to the impact of Covid-19 on the recoverability of the receivables balance.</p> <p>We note that no significant impact has been experienced as a result of the pandemic and management continue to monitor the situation.</p> <p>No issues were identified from our work in this area to suggest the impairment is not reasonable.</p>
			<b>Complete</b>
3	<p><b>Quality of draft accounts</b></p> <p>The accounts presented for audit were not of a high quality. Lack of review of the draft set of accounts, quality of working papers provided and subsequent delays in responses has had an impact on the audit process.</p> <p><b>Risk:</b> There is a risk that the audit is delayed or at worst, the audit opinion is qualified due to the absence of adequate working papers.</p>	<p>The format and overall quality of the annual accounts should be reviewed as part of the progression of Forest and Land Scotland. Working papers should also be reviewed.</p> <p>Audit Scotland and Forestry and Land Scotland should work together to review current practices and to discuss what lessons can be learned going forward.</p>	<p>The unaudited accounts and complete working papers package were provided to audit in line with the original timetable, on 29 May 2020. We noted significant improvements in the quality of the accounts, and the working papers were of a good standard. Finance staff made good use of the working papers checklist issued in advance of the year-end audit and managed the response to audit queries effectively.</p> <p>The audit team and finance staff continue to work together to ensure the audit process runs smoothly and efficiently.</p>
			<b>Complete</b>
4	<p><b>Non-current assets</b></p> <p>Neither infrastructure nor intangible assets are capitalised. All expenditure on these items is expensed. The policies and practices should be reviewed to ensure assets</p>	Management should review the accounting policies and practices in relation to intangible and infrastructure assets.	<p>Refer to recommendation 4 above.</p> <p><b>Ongoing</b></p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>are properly stated and reflect the nature of the asset created.</p> <p><b>Risk:</b> There is a risk that the value of non-current assets is misstated.</p>		
5	<p><b>NFI</b></p> <p>The review of the recommended matches should be progressed. The Audit and Risk Committee of Forestry and Land Scotland should be provided with the self-appraisal checklist in order to be informed of the NFI process.</p> <p><b>Risk:</b> There is a risk that the Audit and Risk Committee members are not kept fully apprised of the progress made on the NFI exercise.</p>	<p>The review of the recommended matches should be progressed. The Audit and Risk Committee should be provided with the self-appraisal checklist in order to be informed of the process.</p>	<p>The 2018/19 NFI self-appraisal checklist was presented to final Forest Enterprise Scotland Audit and Risk Committee in August 2019.</p> <p>Management should continue to appraise the Forestry and Land Scotland Audit and Risk Committee of progress of future NFI exercises.</p> <p><b>Complete</b></p>
6	<p><b>Longer-term financial planning</b></p> <p>Longer-term financial planning was deferred by Forest Enterprise Scotland pending the transition to Forestry and Land Scotland.</p> <p><b>Risk:</b> 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, supported by clear and detailed financial plans. Financial planning should align with the Forestry and Land Scotland corporate plan.</p>	<p>Refer to recommendation 5 above.</p> <p><b>Ongoing</b></p>
7	<p><b>Performance management</b></p> <p>Forestry and Land Scotland 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><b>Risk:</b> There is a risk that the Performance Report does not maximise its potential as a</p>	<p>Forestry and Land Scotland 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. Forestry and Land Scotland should provide an assessment of its contribution to the Scottish Government outcomes.</p>	<p>Refer to recommendation 7 above.</p> <p><b>Ongoing</b></p>



**No. Issue/risk**

means of communicating performance.



**Recommendation**



**Agreed management action/timing**

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# 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 to our wider responsibility under the [Code of Audit Practice 2016](#).

### Risks of material misstatement in the financial statements

<p><b>1 Risk of management override of controls</b></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>Testing of journal entries.</p> <p>Review of accounting estimates and judgements.</p> <p>Focussed 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>We did not identify any issues through our audit work that would indicate management override of controls affected the year end position.</p> <p>Our interim audit work identified issues with general ledger user access rights, however we acknowledge mitigating controls are in place.</p>
<p><b>2 Risk of fraud over income and expenditure</b></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 £100m from other sources was received and includes £78m 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</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>	<p>We substantively tested income and expenditure transactions. We identified an issue regarding expenditure cut-off in 2018/19, as reported in <a href="#">Exhibit 3</a>. No other issues were identified.</p> <p>As noted at paragraph 9, our audit approach was updated and we took a purely substantive approach to accounts receivables and payables.</p> <p>No significant issues were identified from our region visit, and assessment of the key controls in place.</p> <p>We considered anti-fraud arrangements and completed the NFI follow-up questionnaire. No issues arose from this work.</p> <p>We carried out a high-level review of procurement processes. Refer to paragraphs 73 to 79 above.</p>

that, in accordance with ISA 240 and Practice Note 10, there is an inherent risk of fraud.

### 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.

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.

We reviewed the work of the professional valuer and held specific discussions with the valuer in order to inform our audit work and have no issues to note. No in-house valuations were applied in material revaluations.

The revaluation of biological assets and the forest estate was subject to review, and we discussed a number of issues with management throughout the year. This included the valuation methodology applied as discussed at [Exhibit 3](#).

The valuation of the year-end stock balance was subject to review, including the detailed valuation methodology as noted in [Exhibit 3](#). We also attended a live stock take as part of our interim audit work.

The accounting policies were reviewed as part of our year-end audit. We requested that a number of amendments were made in order to better reflect practice.

There are no contingent liabilities disclosed in the 2019/20 financial statements. We are satisfied that all obligations relating to Forestry and Land Scotland in respect of opencast sites have been fulfilled.

We undertook substantive testing of year-end balances, with no significant issues identified.

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

### 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

Review of budgetary control arrangements.

Monitor progress towards development of longer-term financial plan.

Consideration of year-end reserve balance.

Budgetary control arrangements were reviewed, as detailed at Part 2 of this report.

Discussions were carried out with management with regard to longer-term financial planning. Refer to Part 3 of this report and [Appendix 1, Recommendation 5](#).

The year-end reserve balance was reviewed during the audit. We have no issues to note in respect of this.

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.

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## 5 Governance and transparency – organisational change

A significant amount of work continues in respect of the establishment of Forestry and Land Scotland. This includes:

- 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.

There is a risk that internal controls and governance arrangements do not operate effectively.

Consideration of the findings from internal audit's report on corporate governance.

Assessment of progress towards completion of planned projects.

Review and assessment of the effectiveness of governance arrangements.

Review and assessment of the effectiveness of internal controls.

Ongoing dialogue with finance staff in advance of annual report and accounts preparation.

Review processes for maintaining register of interests.

We carried out discussions with management on an ongoing basis throughout 2019/20 to monitor the organisational change programme.

We reviewed the findings of internal audit's review of corporate governance, as referenced at paragraphs 116 to 118.

Forestry and Land Scotland have established appropriate arrangements to support good governance, accountability and scrutiny.

We identified some weaknesses in internal control; however, none were considered significant enough to impact on the preparation of the financial statements.

We maintained in regular contact with finance staff and note a considerable improvement to the accounts and audit process from the prior year.

We have no issues to note from our review of the processes for updating and maintaining registers of interest.

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# Appendix 3

## Summary of national performance reports 2019/20

		 <b>2019/20 Reports</b>	
		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	 Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	 Early learning and childcare: follow-up

### Central Government relevant reports

[\*Social security: Implementing the devolved powers\*](#) – May 2019

[\*Enabling digital government\*](#) – June 2019

[\*Scotland's City Region and Growth Deals\*](#) – October 2019

[\*Privately financed infrastructure investment: The Non-Profit Distributing \(NPD\) and hub models\*](#) – Jan 2020

[\*Early learning and childcare: follow-up\*](#) – March 2020



# Forestry and Land Scotland

## 2019/20 Annual Audit Report

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