

Scottish Land Commission

2019/20 Annual Audit Report



 AUDIT SCOTLAND

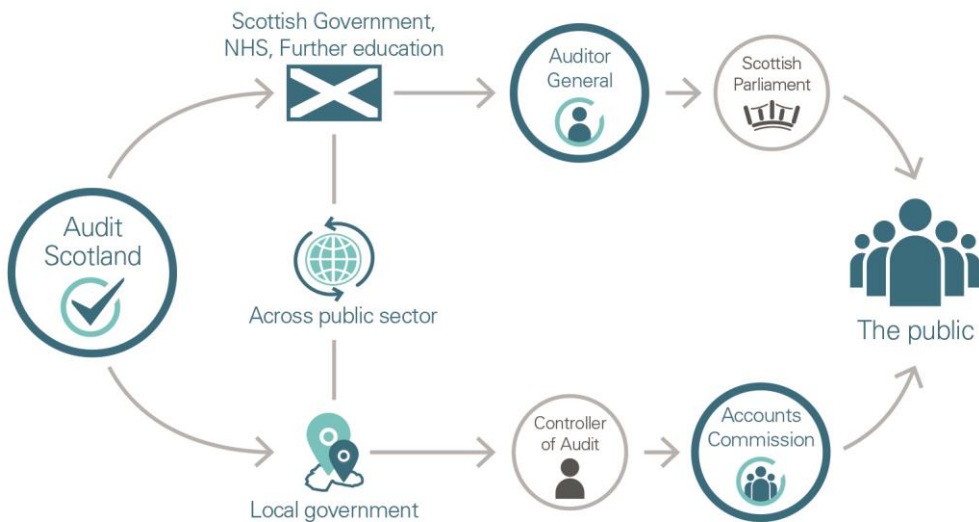
Prepared for the Scottish Land Commission and the Auditor General for Scotland

1 September 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 and making clear and relevant recommendations.

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Key messages

2019/20 annual report and accounts

- 1** The Commission's financial statements give a true and fair view of the state of its affairs as at 31 March 2020 and of its net expenditure 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 performance report, governance statement and audited part of the remuneration and staff report were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.
- 4** Some internal control processes are no longer evidenced.
- 5** Some progress was made on prior year recommendations.

Financial sustainability and governance statement disclosures

- 6** The Commission underspent its 2019/20 resource allocation by £68,000 (4.4%).
- 7** The 2020/21 budget has been revised to reflect the ongoing impact of Covid-19.
- 8** The Commission has yet to develop a medium to longer-term financial plan.
- 9** Covid-19 has had limited impact on the Commission's governance arrangements.
- 10** Governance statement disclosures are appropriate.

Introduction

1. This report summarises the findings from our 2019/20 audit of the Scottish Land Commission (the Commission).

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

- an audit of the Scottish Land Commission's annual report and accounts
- our consideration of the Commission's financial sustainability and the appropriateness of the disclosures in the annual governance statement.

3. In common with all organisations, the Commission has had to respond to the global coronavirus (Covid-19) pandemic. This affected the final month of the 2019/20 financial year and will continue to have an impact in 2020/21.

4. As we undertook our audit planning work prior to the pandemic, we reviewed our assessment of audit risks and the planned audit work in June 2020 and concluded that they remained relevant.

Adding value through the audit

5. We add value to the Commission through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear conclusions on the appropriateness of the disclosures in the governance statement and financial sustainability.

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

Responsibilities and reporting

7. The Commission 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 Scottish Ministers.

8. The Commission is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

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

10. The Code of Audit Practice 2016 includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. As highlighted in our 2019/20 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code of Audit Practice to the Commission's 2019/20 audit.

11. This report raises matters from our audit of the annual report and accounts and consideration of the audit dimensions. The 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.

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

Auditor Independence

13. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

14. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services. The 2019/20 audit fee of £24,800, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

16. We would like to thank the Commission's management and staff for their co-operation and assistance during the audit, particularly given the current challenges presented by the impact of Covid-19.

Part 1

Audit of 2019/20 Annual report and accounts



Main judgements

The Commission's financial statements give a true and fair view of the state of its affairs as at 31 March 2020 and of its net expenditure for the year.

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

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

Some internal control processes are no longer evidenced.

Some progress was made on prior year recommendations.

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

17. The annual report and accounts for the year ended 31 March 2020 were approved by the Commissioners on 1 September 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 performance report, governance statement and audited part of the remuneration and staff report were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The annual report and accounts were signed off within the original timescales

18. The unaudited annual report and accounts were received on 15 June 2020, in line with the revised audit timetable. Commission and Audit Scotland staff worked from home for the duration of the audit due to the Covid-19 pandemic and this presented challenges for both teams. As a result, the audit took longer than normal to complete.

19. The annual report and accounts and supporting working papers submitted for audit were of a reasonable standard and the audit team received good support from Commission staff throughout the audit. Two key working papers were not submitted along with the unaudited accounts:

- the bank reconciliation as at 31 March 2020 was not provided until requested by audit and when provided had been signed by the Accountable Officer on 29 July 2020. Bank reconciliations should be completed timeously throughout the year and as part of year-end processes
- an impairment review was not carried out as at 31 March 2020. Non-current assets are not a material account area and so there was no impact on the 2019/20 audit opinion. We would recommend that an impairment review is carried out as part of the year end processes in future years.



Recommendation 1

Year-end processes should be reviewed to ensure that key tasks are completed before the annual report and accounts (and supporting working papers) are submitted for audit.

20. Regular communication and good working relationships helped ensure the audit ran relatively smoothly and, despite the challenges of lockdown, we were able to complete the audit on 1 September 2020 as set out in our Annual Audit Plan.

Overall materiality is £29,000

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

22. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and updated them as set out in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£29,000
Performance materiality	£15,000
Reporting threshold	£1,000

Source: Audit Scotland

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

23. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the audit team was directed. The Appendix summarises the work we have done to address these risks and our conclusions from this work.


24. We undertook our planning work and issued our 2019/20 annual audit plan 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 June 2020 and concluded that they remained relevant. There have not been any changes to the audit risks or our audit approach.

Significant findings from the audit of the financial statements

25. 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 Scottish Land Commission's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Overstatement of property, plant and equipment</p> <p>The property, plant and equipment (PPE) figure included in the unaudited accounts did not agree to the fixed asset register or financial ledger due to confusion over the Commission's capitalisation policy and a lack of consistency in its application. We made a similar point in our 2018/19 Annual Audit Report.</p>	<p>Following discussions with management, the audited accounts were amended to make them consistent with the financial ledger. Commission staff are unclear as to how to update the fixed asset register and so it remains out of step. We understand that the Office Manager plans to contact SAGE, who provide their financial ledger, for assistance with updating the fixed asset register.</p> <p>The Commission's capitalisation policy will also be updated to ensure clarity as to when assets should be capitalised.</p> <p>The amendment reduced the value of property, plant and equipment and increased trade and other receivables (due to rounding) by £1,000. There was no impact on reserves.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>
<p>2. Misclassification of non-current assets</p> <p>Current assets were overstated, and non-current assets were understated by £2,000 due to the misclassification of trade and other receivables due in more than one year.</p>	<p>The audited accounts have been amended to correct this misstatement. There is no impact on reserves.</p>

Source: Audit Scotland

The financial statements were amended to reflect all our audit findings

26. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

27. Management agreed to amend the financial statements to reflect all our audit findings except those considered clearly trivial, and so there are no unadjusted misstatements to report to those charged with governance. The amendments made did not impact on the net assets position.

The performance report could be further improved

28. We audit the performance report for consistency with the rest of the financial statements. In addition, we consider the qualitative aspects of the report. The purpose of the performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It should provide a fair, balanced and understandable analysis of a body's performance.

29. Our review of the performance report noted a number of areas that required amendment in order to more fully meet the requirements of the Financial Reporting Manual (FReM):

- the working paper used to prepare the 'allocation of resources' graphic did not agree with the main financial statements
- the reported out-turn position was hard to follow as it focussed on the year-end cash position rather than the underspend against the Scottish Government's Departmental Expenditure Limit (DEL)
- the difficulty in getting suitable external contractors to bid for the Commission's research contracts required more prominence.

30. We discussed the above points with management, and they agreed to update the narrative in the audited accounts. We have concluded that the revised narrative meets the requirements of the FReM.

31. In our view, there is scope to further improve the performance report in future years. Annex 5 to the FReM gives additional guidance for narrative reporting. It refers to the use of trend analysis, balanced reporting, plain English, use of infographics and advises the preparer to go beyond the minimum requirements. Further guidance can also be found in Audit Scotland's 2019: [Good practice note on improving the quality of central government performance reports](#).



Recommendation 3

The Commission should review the content and presentation of its performance report against Annex 5 of the FReM and Audit Scotland's good practice guide.

32. The Commission prepares a 'glossy' version of the annual report and accounts once the audit is substantially complete. The performance report included in the document submitted for audit includes text in places where graphics will be inserted in the final version which impacts on the readability and understandability of the performance report. These are key areas we are required to consider as part of our review of the disclosures included in the performance report and so it would assist the audit process if a more final version of the performance report was included in the unaudited annual report and accounts in future years.



Recommendation 4

A more final version of the performance report should be included in the annual report and accounts submitted for audit.

Some internal control processes are no longer evidenced

33. Following the introduction of the new financial ledger system, the Commission adopted a paperless approach to record keeping with effect from 1 April 2019 and as a result, the completion of some internal control processes, such as checks on payroll data and the monthly bank reconciliation, are no longer evidenced.

34. It is good practice to evidence any internal control checks carried out. This can be done electronically and should evidence the completion of both in-year and year-end processes. In addition, the scale and pace of change as a result of Covid-19 poses an increased risk that financial controls will not operate as intended. We would recommend that the Commission review its arrangements to ensure they remain effective.



Recommendation 5

The Commission should introduce an electronic record-keeping system to document the requirement for, and completion of, control procedures on a timely basis throughout the year and at the year-end. In addition, arrangements should be reviewed to ensure controls remain effective during the period of uncertainty caused by the Covid-19 pandemic.

35. There was no impact on our audit approach as we adopt a fully substantive approach to the audit of the Commission's annual report and accounts. Our substantive testing did not identify any errors which would indicate that internal control processes were not in operation during 2019/20.

Some progress was made on prior year recommendations

36. The Commission has made some progress in implementing our prior year audit recommendations. Two of the five recommendations included in last year's action plan have been completed:

- the unaudited annual report and accounts submitted for audit were of a reasonable standard and the number and magnitude of misstatements identified was reduced from 2018/19. We did not identify any instances of non-compliance with the FReM although we have recommended that there is scope to further improve the performance report in future years
- the Commission reduced its underspend against Departmental Expenditure Limits (DEL) from 8.5% in 2018/29 to 4.4% in 2019/20.

37. For the three actions not yet fully implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial sustainability and governance statement disclosures



Main judgements

The Commission underspent its 2019/20 resource allocation by £68,000 (4.4%).

The 2020/21 budget has been revised to reflect the ongoing impact of Covid-19.

The Commission has yet to develop a medium to longer-term financial plan.

Covid-19 has had limited impact on the Commission's governance arrangements.

Governance statement disclosures are appropriate.

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

The 2019/20 budget was underspent by £68,000

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

39. The Commission's performance against Departmental Expenditure Limit (DEL) is shown in [Exhibit 3](#). The Commission reported an outturn of £1.458 million for 2019/20, underspending its overall budget by £68,000 (4.4%) and so met this objective in 2019/20.

Exhibit 3 Performance against DEL in 2019/20

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	1.500	1.526	1.458	(0.068)

Source: Audited Annual Report and Accounts and Budget Allocation and Monitoring letters for 2019/20

40. The majority of the underspend relates to research contracts not proceeding due to a lack of bidders for some of the contracts put out to tender. In addition, expenditure was less than planned as several events had to be cancelled in the latter part of 2019/20 due Covid-19.

41. 2019/20 was the first year the Commission agreed a budget in excess of its available funding (known as over-programming) and this has helped reduce the underspend as at 31 March 2020. One of the Commission's key performance indicators, agreed in December 2019, is to keep any underspend within 5% of the available funding. The Commission met this target in 2019/20, recording a budget underspend of 4.4%.

42. The Commission drew down £1.456 million of its budget allocation during 2019/20. The remaining £2,000 was funded from reserves leaving a reserves balance of £42,000 as at 31 March 2020. (31 March 2019: £44,000).

The 2020/21 budget has been revised to reflect the ongoing impact of Covid-19

43. The 2020/21 budget was approved by the Commissioners as part of the 2020/21 Business Plan in March 2020. The agreed budget for 2020/21 of £1.646 million exceeds the grant-in-aid funding available from the Scottish Government by £0.120 million (8%). This planned over-programming is part of the Commission's approach to minimising any budget underspend.

44. Last year we reported that only 17% of the 2019/20 budget had been spent at 30 June 2019 and that the budgets for a number of the Commission's strategic priorities (land ownership, land use decision-making and agricultural holdings) had minimal spend and had yet to be committed to individual projects. The latest budget report, presented to Commissioners in July 2020, shows that only £0.190 million (11.5%) of the 2020/21 budget was uncommitted at 30 June 2020. This is a significant improvement on the prior year's position.

45. The 2020/21 budget has been updated to reflect the impact of Covid-19 on travel and events, and changes to work prioritisation due to reduced staff capacity. The revised budget still includes an element of over-programming at £1.606 million.

The Commission has yet to develop a medium to longer-term financial plan

46. In our 2017/18 report we recommended that the Commission develop a long-term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +). Last year we reported that limited progress had been made and in response, the Chief Executive confirmed that multi-year budgeting would be incorporated into the 2020/21 budget process and review of the Strategic Plan. Our review of the 2020/21 budget noted that it only covers a one-year period.



Recommendation 6 (prior year)

A long-term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) should be developed. Plans should set out scenario plans (best, worst, most likely) with a clear assessment of the impact of budget assumptions on activity and any residual risks.

Governance statement disclosures are appropriate

47. Our review of the Governance Statement within the annual report and accounts assessed the assurances which are provided to the Accountable Officer regarding the adequacy and effectiveness of the Commission's system of internal control which operated in the financial year. As in previous years, the Accountable Officer has placed reliance on the assurances provided by Heads of Service, the Audit and Risk Committee, and shared service providers.

48. Reliance is also placed on internal audit findings reported during the year, and internal audit's overall opinion that *'based on our verification reviews and sample testing, the risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related risk management, control and governance objectives were achieved for the period under review.'*

49. The Governance Statement sets out the main areas of focus for the Commission in 2020/21. These include maintaining oversight of the changing risks and opportunities resulting from the Covid-19 pandemic, contributing to Scotland's economic recovery, continuing to develop performance management information and achieving delivery of the Programme of Work which supports its Strategic Plan.

50. We concluded that the information in the Governance Statement is consistent with the financial statements and complies with the guidance issued by Scottish Ministers.

Covid-19 has had limited impact on the Commission's governance arrangements

51. The Commission updated its Business Continuity Plan in December 2019 to include actions to be taken in the event of a pandemic. As a result, it was well prepared for the lockdown announcements by the UK and Scottish Governments and was able to seamlessly transition to home working with offices closed from 17 March 2020. Meetings of the Board and committees are held virtually and have continued in line with the original timetable established at the start of the year.

52. The strategic risks facing the Commission have been reviewed to reflect the increasing risk posed by the Covid-19 pandemic. Staff well-being surveys have been conducted and the 2020/21 Business Plan has been updated to accommodate the reduced capacity of staff with caring responsibilities. All business travel has ceased.

53. We concluded that Covid-19 has had limited impact on governance arrangements at the Scottish Land Commission. We will assess the impact on the delivery of the Commission's 2020/21 objectives as part of our 2020/21 audit.

National performance audit reports

54. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Although there were no reports published in 2019/20 which were of direct interest to the Commission, there were others with some wider relevance. These are included in [Appendix 3](#).

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Year-end processes</p> <p>Two key working papers were not provided in the working papers package provided to audit. It is not clear if the bank reconciliation had been completed prior to submission of the unaudited annual report and accounts for audit.</p> <p>Risk: there is a risk that the accounts are misstated if key year-end tasks are not completed timeously.</p>	<p>Year-end processes should be reviewed to ensure that key tasks are completed before the annual report and accounts (and supporting working papers) are submitted for audit.</p> <p>Recommendation 1, paragraph 19.</p>	<p>Year-end processes will be reviewed to ensure all key tasks are completed. Finance desk instructions and checklists will be reviewed and updated in line with monthly processes.</p> <p>Responsible officer: Head of Communications and Corporate Services</p> <p>Agreed completion date: 30 September 2020</p>
2	<p>Fixed asset register</p> <p>Our audit found discrepancies between the value of Property, Plant and Equipment (PPE) disclosed in the accounts, the fixed asset register and the general ledger.</p> <p>These discrepancies arose due to a lack of clarity over the Commission's capitalisation policy</p> <p>Risk: there is a risk that the accounts are misstated due to differences between the accounts and the underlying accounting records.</p>	<p>A reconciliation should be performed between the FAR and the ledger at the year-end to ensure the accounting records agree to the FAR.</p> <p>The Commission should amend its accounting policy to clarify when assets fall within a group, and when they should and should not be capitalised.</p> <p>Recommendation 2, Exhibit 2, point 1</p>	<p>Year-end processes will be reviewed to ensure a reconciliation of the FAR and ledger takes place and is documented electronically.</p> <p>The accounting policy will be updated to ensure clearer instructions on the grouping of assets included.</p> <p>Responsible officer: Head of Communications and Corporate Services</p> <p>Agreed completion date: 30 September 2020</p>
3	<p>Performance report</p> <p>There is scope to further improve the performance report in future years. Annex 5 to the FReM gives additional guidance for narrative reporting.</p> <p>Risk: there is a risk that the Commission fails to communicate effectively with its stakeholders.</p>	<p>The Commission should review the content and presentation of its performance report against Annex 5 of the FReM and Audit Scotland's good practice guide.</p> <p>Recommendation 3, paragraph 31</p>	<p>Performance report will be reviewed and further improved in line with Annex 5 of the FReM and good practice.</p> <p>Responsible officer: Head of Communications and Corporate Services</p> <p>Agreed completion date: 31 March 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
4	<p>Performance report</p> <p>The Commission prepares a 'glossy' version of the annual report and accounts once the audit is substantially complete. The performance report included in the document submitted for audit includes text in places where graphics will be inserted in the final version which impacts on the readability and understandability of the performance report.</p> <p>Risk: the audit process is less efficient resulting in additional fees and delays to the completion of the audit process.</p>	<p>A more final version of the performance report should be included in the annual report and accounts submitted for audit.</p> <p>Recommendation 4, paragraph 32</p>	<p>Annual report and account timescales will be reviewed and updated to allow for the designed version of the draft accounts to be submitted to Audit Scotland</p> <p>Responsible officer:</p> <p>Head of Communications and Corporate Services</p> <p>Agreed completion date:</p> <p>31 March 2021</p>
5	<p>Internal control processes</p> <p>The Commission adopted a paperless approach to record keeping with effect from 1 April 2019 and, as a result, the completion of some internal control processes are no longer evidenced.</p> <p>Risk: the scale and pace of change as a result of Covid-19 poses an increased risk that financial controls will not operate as intended.</p>	<p>We recommend the Commission implements an electronic record-keeping system to document the requirement for, and completion of, control procedures on a timely basis throughout the year and at year end. It should ensure controls remain effective during the period of uncertainty caused by the Covid-19 pandemic.</p> <p>Recommendation 5, paragraphs 33 & 34</p>	<p>The Commission's electronic record keeping will be reviewed in line with current working arrangements to ensure they are accurate, up to date and all control procedures are completed on time.</p> <p>Responsible officer:</p> <p>Head of Communications and Corporate Services</p> <p>Agreed completion date:</p> <p>30 September 2020</p>
Outstanding prior year recommendations			
6	<p>Financial planning</p> <p>The Commission's budgets are prepared and approved on an annual basis. Scenario planning is not used to model the impact of different funding levels.</p> <p>Risk: without medium to longer term financial planning (including scenario planning), there is a risk that the Commission is not fully prepared for potential changes in its funding levels and that</p>	<p>A long-term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) should be developed. Plans should set out scenario plans (best, worst, most likely) with a clear assessment of the impact of budget assumptions on activity and any residual risks.</p>	<p>2018/19 update</p> <p>Limited progress was made on this during 2018/19. Although scenario planning was used, as part of the 2019/20 budget setting process, to model the impact of potential reductions in Scottish Government funding for 2019/20, the 2019/20 budget only covers a one-year period.</p> <p>Revised action</p> <p>Multi-year budgeting to be incorporated into 2020-21</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	opportunities and risks may not be fully realised/mitigated.		<p>budget process and review of Strategic Plan.</p> <p>Responsible officer Chief Executive</p> <p>Revised date: 31 March 2020</p> <p>2019/20 audit update: The budget for 2020/21 only covered one year. The Commission has yet to develop a medium to longer-term financial plan.</p> <p>Revised action A long-term financial strategy will be prepared and taken to the Audit & Risk Committee for approval.</p> <p>Responsible officer Chief Executive</p> <p>Revised date: 2 November 2020</p>
7	<p>Asset register</p> <p>The asset register provided to audit did not agree to the ledger or the accounts as it had not been updated to include depreciation charged in March.</p> <p>The asset register also contains all assets owned by the Commission i.e. it includes assets which have not been capitalised.</p> <p>Risk: the accounts are not in agreement with the accounting records resulting in qualification of the audit opinion.</p>	<p>The asset register maintained for capital accounting purposes should agree to the ledger and accounts and should not include assets which have not been capitalised.</p>	<p>2018/19 action: Capitalised assets are now recorded on the finance system with non-capitalised assets recorded separately.</p> <p>Responsible officer Head of Communications & Corporate Services</p> <p>Agreed date: Completed</p> <p>2019/20 audit update: Capitalised assets are now recorded on the finance system, but this asset register did not agree to the ledger or the unaudited 2019/20 accounts.</p> <p>Refer to action point 1 above.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
8	<p>Performance management</p> <p>The Commission continues to develop its performance management system. Work is ongoing to develop a set of key performance indicators (KPIs) to support monitoring of progress made in delivering the outcomes set out in the strategic plan (2018-2021) and the annual business plan.</p> <p>Risk: in the absence of a well-developed performance management framework, there is a risk that the delivery of the Commission's activities and strategic plan is not adequately monitored and reported.</p>	<p>The Commission should continue to develop its performance management framework including development of a range of key performance indicators against which to monitor its performance.</p>	<p>Complete performance management framework including KPIs.</p> <p>Responsible officer: Chief Executive</p> <p>Agreed date: 31 March 2019</p> <p>2018/19 update</p> <p>The Commission has still to finalise its performance management framework and key performance indicators.</p> <p>Revised action</p> <p>The performance management framework will be submitted to the Board for approval and the KPIs incorporated into the quarterly reporting to the Board.</p> <p>Responsible officer Chief Executive</p> <p>Revised date: 31 December 2019</p> <p>2019/20 audit update:</p> <p>A performance management framework has yet to be submitted to the Board for approval.</p> <p>The Board approved a set of key performance indicators in December 2019. These are fairly generic in nature and could be better tailored to the objectives included in the Commission's Strategic Plan.</p> <p>Revised action</p> <p>The Commission's next Strategic Plan 2020-23 will be published in September and include KPIs directly related to the plan's outcomes and progress will be reported annually.</p> <p>Responsible officer: Chief Executive</p> <p>Revised date: 30 September 2020</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the financial statements and those relating to our wider responsibilities under the Code of Audit Practice 2016.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud which is presumed to be a significant risk in any audit. This includes the risk that management may override controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Results:</p> <p>Our audit work did not identify any issues that would indicate management override of controls affecting the outturn or year-end position.</p> <p>Conclusion: Satisfactory</p>
<p>2 Annual report and accounts preparation</p> <p>In 2018/19 we identified areas where the annual report and accounts had not been prepared in line with the requirements of the Financial Reporting Manual (FRoM), relevant legislation and directions made by Scottish Ministers. We also identified a number of misstatements including misclassification of transactions. There is a risk that the 2019/20 annual report and accounts submitted for audit are not FRoM compliant and free from material misstatements.</p>	<p>Regular discussions with the Accountable Officer to identify any issues that will impact on the preparation and audit of the annual report and accounts.</p>	<p>Results:</p> <p>The unaudited annual report and accounts were delivered in line with the revised timetable.</p> <p>The accounts and supporting working papers were of a reasonable standard and the Office Manager and other staff provided good support to the audit team in resolving any matters raised.</p> <p>The number and magnitude of errors in the accounts was significantly reduced from that found in 2018/19.</p> <p>We noted that there was scope to further improve the readability and understandability of the performance report but concluded that it was FRoM compliant.</p> <p>Conclusion: Satisfactory</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3 New financial ledger</p> <p>The Commission implemented a new financial ledger system (SAGE 50) with effect from 1 April 2019. There is a risk that the financial statements are materially misstated due to:</p> <ul style="list-style-type: none"> - the system not operating as expected - opening balances being incorrectly input to the new system. 	<p>An initial system review will be undertaken to understand and document the controls in place to ensure the completeness and accuracy of ledger transactions.</p> <p>Testing of the opening balances imported from the SEAS ledger system.</p>	<p>Results:</p> <p>Our initial system review found that the control procedures undertaken are no longer being evidenced following the introduction of the new financial ledger system. Although this is not good practice, there was no impact on our audit approach as we adopt a fully substantive approach to the audit of the Commission's annual report and accounts.</p> <p>Testing of opening balances concluded satisfactorily.</p> <p>Conclusion: Unsatisfactory (refer Appendix 1, no. 5)</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the work-in-progress of research contracts at the year end. This subjectivity represents an increased risk of misstatement within the financial statements.</p>	<p>Substantive testing of contracts in progress at year end.</p> <p>Review of project status and reasonableness of estimates and assumptions used when determining stages of completion.</p>	<p>Results:</p> <p>Our substantive testing of contracts in progress at the year-end did not identify any issues with the amounts disclosed within the accounts.</p> <p>Conclusion: Satisfactory</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>5 Financial management and financial sustainability</p> <p>The Commission's budgets are prepared and approved on an annual basis. Without medium to longer term financial planning (including scenario planning), there is a risk that the Commission is not fully prepared for potential changes in its funding levels and that opportunities and risks may not be fully realised/mitigated.</p>	<p>Review of 2020-21 budget process.</p>	<p>Results:</p> <p>Our review of the 2020/21 budget setting process and the budget paper presented to Commissioners in March 2020 noted that the 2020/21 budget was prepared on an annual basis, and that a medium to longer-term financial plan has yet to be developed.</p> <p>Conclusion: Unsatisfactory (refer to Appendix 1, no. 6).</p>
<p>6 Introduction of IFRS 16 Leases</p> <p>The Government Financial Reporting Manual (FRoM) requires IFRS 16 Leases, as adapted and interpreted by the FRoM, to be applied to public sector bodies with effect from 1 April 2020. Early work is required to assess the practical implications and ensure arrangements are in place to support adoption of this IFRS.</p>	<p>Ongoing engagement to assess preparations for the implementation of IFRS16 Leases.</p>	<p>Results:</p> <p>The Financial Reporting Advisory Board (FRAB) agreed, in March 2020, to delay the implementation of IFRS16 to 1 April 2021 due to Covid-19.</p> <p>The estimated impact of the new standard has been quantified and disclosed in Note 1.12 of the audited accounts.</p> <p>Conclusion: Satisfactory</p>

Appendix 3

Summary of national performance reports 2019/20



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

Scottish Land Commission

2019/20 Annual Audit Report

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