

# Forestry and Land Scotland

2021/22 Management report



 **AUDIT SCOTLAND**

Prepared by Audit Scotland

July 2022

---

# Audit findings

---

## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Forestry and Land Scotland. This work included testing of the key controls within the main financial systems, in order to gain assurance over the processes and systems used in preparing the financial statements. The results of this work will inform our approach to the 2021/22 financial statements audit, where appropriate.

2. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek 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
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. Public bodies remain under pressure as they manage the impact of the Covid-19 pandemic, and our approach to audit during the pandemic continues to be flexible, pragmatic and consistent. The wellbeing of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance.

4. Our interim audit work took place between February and April 2022. Our work was carried out remotely, reflecting the current working arrangements of the audit team and Forestry and Land Scotland staff. The co-operation received from Forestry and Land Scotland is gratefully acknowledged.

## Work summary

5. Our 2021/22 interim audit work covered the following key systems: general ledger, accounts receivable, accounts payable, payroll, cash and bank, the sub-compartment database and the sales recording package. This testing covered controls including system user access, authorisation of journal entries, system reconciliations and timber security.

6. Issues were identified with the accuracy of the report provided to the audit team to support testing of aged debt follow up. Despite clarifying the information requested, the report did not accurately represent the outstanding balances of Forestry and Land Scotland's customers. This required additional audit work

and time to complete this testing to obtain assurance over the arrangements in place for following up on outstanding debt, and the receivables balance reflected in the financial statements. The finance team should ensure they are able to provide relevant and accurate reports to support both their own checks and audit testing.

**7.** The Scottish Government's Directorate for Internal Audit and Assurance (DIAA) published a report on Self-Billing arrangements for timber customers in March 2022. This report identified that improvements could be made to governance controls supporting the process, including the finalisation of policies and procedures in respect of credit management. We reviewed the key controls within the accounts receivable system and agree with the recommendations made by DIAA. Forestry and Land Scotland should address the matters raised in accordance with the management responses and timescales agreed with DIAA.

**8.** Any weaknesses identified represent those that have come to our attention during the course of normal audit work and, therefore, are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Forestry and Land Scotland.

**9.** The contents of this report have been discussed with management to confirm factual accuracy.

## Conclusion

**10.** A number of control weaknesses were identified from our interim audit work which are summarised in [Exhibit 1](#) below. A number of these relate to deficiencies in the application of mitigating controls, designed to reduce the risk of fraud or error (items one to four). It is important that such controls are operated and recorded consistently.

**11.** We consider the impact of all identified control weaknesses and undertake additional work as appropriate in response to these findings in order to obtain sufficient assurance for our audit of the 2021/22 financial statements. Forestry and Land Scotland is in the process of implementing new procedures in 2022/23 to address the identified risk over changes to payroll standing data and employee verification and should progress the other points raised throughout the course of the year.

**12.** Other issues that we identified and have reported in [Exhibit 1](#) are for management to consider and address to improve the controls in place at Forestry and Land Scotland and have not impacted our planned audit approach. The management actions taken and / or proposed to respond to each issue reported will further strengthen the control environment.

**13.** Subject to the matters reported and resultant management action, we are content that Forestry and Land Scotland's internal controls, in the areas we examined, operated effectively during 2021/22.

**14.** Our 2021/22 annual audit plan referred to the wider scope of public audit, required under the [Code of Audit Practice](#). During our interim audit,

we carried out some preliminary work across the audit dimensions: financial management, financial sustainability, governance and transparency and value for money. Based on the work undertaken to date, we have not identified any areas of concern which require reporting at this stage. We shall conclude and report on these areas as part of our financial statements audit.

## Exhibit 1

### Key findings and action plan 2021/22

No.	Issue identified	Management response
1	<p><b>General ledger – system user access rights</b></p> <p>As reported previously, there are weaknesses in system controls within the eFinancials ledger system which means there is no distinction between senior management and junior staff access rights. This means that all users can input and authorise journals, purchase orders and invoices up to £1 million and sales invoices and credit notes up to £4 million.</p> <p>Audit review in 2021/22 identified that:</p> <ul style="list-style-type: none"> <li>• for four leavers, system access was not removed promptly when the employees left the organisation as this had not been requested by their line managers</li> <li>• system access rights for one employee were amended without formal request by their line manager.</li> </ul> <p>A secondary control is in place which compares the eFinancials user access listing with to HR lists of leavers is in place and operates on a quarterly basis. This identified the leavers noted above. In order for this to be a more effective mitigating control, the comparison should be carried out more regularly.</p> <p>Robust access controls are essential to ensure the integrity of financial information and segregation of duties within key financial systems and access should be appropriate to the user's role.</p>	<p>Management accepts the previously reported control issue regarding the absence of roles and rights inherent within the system. The mitigating control to sample verify segregation of duties and accuracy has been maintained throughout the year and latterly the guidance on posting and authorisations has been tightened up, familiarisation sessions held and released.</p> <p>The findings in respect of the access authorisation and timely housekeeping are disappointing and the team are being reminded to follow known process without exception. Leavers reports will be used on a more regular basis as recommended.</p> <p>Management would also wish to note that in respect of leavers that access to finance systems are through SCOTS then Citrix, once SCOTS access is closed there are no other means of access (e.g. through a URL) and the risk in this area is reduced, however the point of housekeeping being timely is not disputed.</p> <p>The extra check re the comparison to HR leavers was introduced during the year. The check will be performed monthly in 2022-23.</p> <p>Responsible officer – Colin Buchanan All actions have been implemented</p>

**Risk:** There is a risk that errors or irregularities are not prevented or detected due to inappropriate user access.

**Planned audit action:** We will undertake adequate substantive testing of journals, purchase and sales invoices, and credit notes to provide sufficient assurance that they are accurate and valid.

## 2 General ledger - authorisation of journal entries

We have previously reported that all users can input and authorise journal entries on eFinancials. Mitigating controls include the review and authorisation of journal vouchers before input to the ledger.

We tested a sample of 30 journals and identified:

- one instance where the journal voucher could not be provided, and management could not evidence segregation of duties and authorisation in the preparation of the journal
- one instance where the journal voucher was not completed fully, and segregation of duties and authorisation could not be confirmed
- two instances where the journal voucher was completed after the journal was posted on the ledger.

**Risk:** As this is a mitigating control, there is an increased risk of error and irregularities not being prevented or detected if manual journal vouchers are not retained and completed fully and accurately.

**Planned audit action:** We will undertake adequate substantive testing of journals to provide sufficient assurance that they are accurate and valid.

Response as above in respect of system controls. Additionally, an upgrade to the eFinancials systems is currently live. Once complete (and in conjunction with a review of the DFA which is also live), roles will be embedded within the system and remove the inherent risk posed by this issue.

The reviewed and updated guidance on authorisation and process is now live, this combined with a higher level of review for compliance checking has been undertaken. This work will be followed through to ensure that uptake and response to the tightened controls are embedded to prevent recurrences such as these and until such time as the roles in the upgraded system are embedded.

Responsible officer – Jennie Smith

The above actions have been implemented.

### In addition

FSD will investigate practicalities of adding Journals to workflow.

Review of workflow due to be in place by 31/10/22.

Responsible officer – Jennie Smith

## 3 Accounts payable – authorisation of invoices

Audit testing of the controls in place over the authorisation of payments identified four instances where there was no segregation of duties between the approver of either the purchase order or purchase order request form and the invoice.

Some significant change in personnel in the finance team and specifically the purchase ledger officers occurred in the second half of the financial year and it is accepted that there were some initial teething problems presented in ensuring the controls were followed through initially. However, this team is now

**Risk:** There is a risk that inappropriate or fraudulent payments are made due to a lack of segregation between those who request and those who approve purchases.

**Planned audit action:** We will undertake sufficient substantive testing of expenditure transactions to obtain adequate assurance over payments made.

settled and at full capacity with all team members aware of what controls are.

The Acting Head of Finance (HoF) has obtained details of the samples which uncovered these issues for review and consideration of further action.

#### **In addition**

The review of roles via v6 upgrade will ensure an inputter cannot authorise. FSD will also investigate workflow to help demonstrate segregation of duties

Review of workflow due to be in place by 31/10/22

Responsible officer – Jennie Smith

#### **4 Accounts receivable – segregation of duties**

A sample of 15 sales invoices and five credit notes were selected for testing. For two invoices and three credit notes, evidence could not be provided to demonstrate segregation of duties between the inputter and the authoriser.

**Risk:** There is a risk that income is incorrectly recognised, leading to inaccurate financial reporting.

**Planned audit action:** We will undertake sufficient substantive testing of income transactions to obtain adequate assurance over income recognised.

Management recognises the high percentage of error identified in this sample and is sending reminders to finance administrators on appropriate segregation of duties, especially in respect of credit note processing. Other mitigating factors such as income reconciliations afford an improved level of compliance in this area.

#### **In addition**

The review of roles via v6 upgrade will ensure an inputter cannot authorise. FSD will also investigate workflow to help demonstrate segregation of duties

Review of workflow due to be in place by 31/10/22

Responsible officer – Jennie Smith

#### **5 Payroll – employee verification**

No employee verification exercise was carried out by Forestry and Land Scotland during 2021/22 to confirm that staff on the payroll actually exist.

Management have advised that the development of a formal process for employee verification is ongoing.

**Risk:** Without regular confirmation of the existence of staff, there is a risk of fraud or error in that 'ghost' employees may be included in the payroll, or that leavers may not be timeously removed from the payroll.

Work is being undertaken for HR Business Partners to share staff lists with Cost Centre (CC) managers on a monthly basis at Workforce Planning meetings and CC Managers will be required to verify that staff on the list exist or make changes. Any changes will be reviewed, checked and made to the payroll as required.

Responsible officer – Claire Blakeley  
December 2022 – and will be completed monthly from this point

Meantime, mitigation of the risk presented can be given by the month

**Planned audit action:** We will increase and extend our year-end payroll testing to cover the existence of employees.

BMR (budget management return process), whereby post detail is provided in the actual costs. This data is reviewed monthly by Cost Centre (CC) managers, Business Managers and confirmed as correct by ET respective senior leaders. Anomalies or unidentified payments to any known or unknown people are flagged to management accounts.

---

## 6 Payroll – changes to standing data

During our review of the controls in place in the payroll system, we identified that there was no formal documentation of the controls over changes to standing data in the payroll system for the 2021/22 financial year (i.e., updates to reflect the annual pay award).

**Risk:** If documentation of system updates, checks and reviews are not evidenced and retained, there is an increased risk that errors are not identified or addressed.

**Planned audit action:** Our year-end testing of staff costs will involve re-calculation of a sample of payslips.

Very significant turnover, loss of key personnel within the HR team and COVID absences have reduced the ability to respond to previous findings, however, recent and new appointments as well as expansion in some areas allow us to put in place a robust response to deliver improved and adequate controls.

Plans are also in place for future pay awards records to be reviewed and signed off as accurate and a record kept for future reference.

Responsible officer – Claire Blakeley

This is now implemented.

---

## 7 Sales recording package - eFinancials reconciliations

A sample of five monthly reconciliations between the sales recording package and eFinancials were selected for review. It was noted that, as a result of changes in personnel in the finance team:

- one reconciliation was not completed until three months after the period end
- two reconciliations were not signed off by a more senior staff member, evidencing review
- one reconciliation was not reviewed until two months after the period end, although it had been completed timeously.

Completing the reconciliations and evidencing formal review provides management assurance that all discrepancies have been followed up and resolved.

The Acting HoF has discussed with the Senior Financial Accounts and reinforced the need for the oversight and authorisation as well as the timing, however, the specifics of this year's delays are owing to changes in team members key to the process. Management is comfortable that this will not repeat.

Responsible officer – Jennie Smith

Actions have been implemented.

---

**Risk:** There is a risk that errors are not identified timeously, resulting in differences between the two systems.

**Planned audit action:** We will review the year-end reconciliation and follow up on any reconciling items.

## 8 Timber contracts – controls testing

A sample of 25 timber contracts from across Scotland were selected for testing. These covered both standing sales and direct production timber. The following issues were identified from this testing:

- for three contracts, the contract (or equivalent) and contract headers were unavailable
- in five instances, the contract header had not been signed
- on three occasions, there was a delay in signing the contract header before commencement of the contract
- for one contract, there was a delay between applying a price change on the sales recording package and the price addendum being signed by Forestry and Land Scotland and the customer
- for a number of contracts tested, the overarching contract could not be provided as this was held in hard copy at regional offices. Where this was the case, lot summaries or annual addendums were accepted in their place where these were signed. On three occasions, the lot summaries provided were unsigned and could not be accepted as audit evidence.

We acknowledge the continued impact of Covid-19 lockdown restrictions on our work in this area, and management's ability to obtain the information required for audit. Management should ensure that there are arrangements in place to ensure there are appropriate controls in place over the execution of timber contracts remotely.

**Risk:** There is a risk that inappropriate payments are made as a result of incomplete contract documentation.

**Planned audit action:** We will extend our substantive testing of timber income as

Management acknowledges the relatively high level of instances of administrative omissions or error in the sample and feedback to the teams involved will be provided.

Imminent reopening of offices will support issues created by remote working; the finance team will discuss with S&M colleagues how to support providing audit evidence in advance of the statutory audit.

Section 18.1.2 of the timber governance lays out the requirements and responsible person(s) for execution of LTC call-off contracts and local negotiated sales (Open Market sales are executed through the E-Sale platform). The examples of non-compliance through inconsistent practice are acknowledged. The SRP systems manager is in advanced discussion to procure DocuSign on a trial basis. This will eradicate the risks identified by contract schedules and addenda for price / quantity variation being executed in counterpart by digital signatory, aligned to delegated levels of signatory.

Responsible officer – Conel Ramage / Graham Godsman

Target for Completion – 30/9/22

Contract Header Reports – Section 18.3 of the timber governance states, "Prior to any authorisation of uplift, AND after setting the contract status to Live, the Regional H&M Admin Officer will ensure the contract header report has been checked and certified as accurate by an independent member of staff. Again the

required to obtain sufficient assurance over the income recognised.

evidence of non-compliance through inconsistent practice is acknowledged.

Responsible officer – Stuart MacKinnon (M&S Business Support Manager) to reinforce this mandatory requirement in writing and put in place sample checks through to 31/3/2023. Electronic signatories and PDF files will be acceptable formats.

Target for Completion – 30/6/22

## 9 Marketing and Sales – succession planning

All valuations of standing sales and direct production timber are reviewed and approved by the Head of Marketing and Sales, with limited personnel available to deputise in their absence.

Although the Head of Marketing and Sales is sufficiently knowledgeable and experienced to prepare these valuations, the limited succession planning in this area presents a risk that key knowledge and expertise is lost by the organisation. Forestry and Land Scotland should consider the arrangements in place for knowledge sharing across the Marketing and Sales team.

**Risk:** There is a risk that key skills and knowledge are lost through limited succession planning.

Recruitment and retention have been a challenge across a number of areas in the agency and the risk of that poses, especially in areas such as Sales and Marketing where teams are lean is recognised by management. An ET approved project to review the overarching approach to recruitment and retention was recently initiated and is in the early stages of planning. Specifics on this point will be fed into that project and to the new Director of Land Management.

Following a review in 2017, M&S has embedded a career structure comprising PB6bs, PB6a, PB5, PB4 and PB3. Furthermore some individuals have requested exposure to key work areas for self-development into the higher pay bands. This has spread the risk in key parts of the business and should facilitate the learning curve for future succession. The team however possess expertise knowledge and experience built up over many years and would be very hard to replace at short notice, increasing risk to continuity of core business and sales in the short term. This may need consideration by Head of M&S and Director of Land Management. The gap between PB3 and PB1 is addressed in part through PB2 delivery managers acting as stand in during absence for specific areas such as SS Valuations. Succession planning for the Head of Marketing & Sales requires consideration over the next three years. A PB2 could be considered as a deputy manager in the

future. Note valuations are not usually prepared by HMS. Valuations are reviewed and amended by HMS. LTC roadside price negotiations are carried out by HMS.

Responsible officer(s): Specific planning for S&M – Graeme Prest, 2023

Overall succession planning – Claire Blakely, June 2023

## 10 Timber security – PIN checks

The Operation Guidance Booklet (OGB) provides guidance for staff on managing and assessing the risks associated with timber security. The OGB requires that a certain percentage of despatches are checked and sets targets of 1.5%-4% for 'standard' risk contracts and 5%-10% for 'high' risk contracts.

The 2021/22 quarter two and three PIN check reports for all forest regions were reviewed. This identified a number of instances throughout the year where the targets were not met. This is consistent with findings from audit review in previous years. A new Timber Security Policy came into effect on 1 April 2022 and contains revised targets for PIN checks.

We recognise that the physical distancing restrictions and safety concerns as a result of the COVID-19 pandemic have had an impact on the checks undertaken and delayed the finalisation of the new Timber Security Policy.

It is important that management ensure effective implementation of and adherence to the new policy and ensure that the PIN check targets are met.

**Risk:** There is a risk that timber security arrangements are ineffective resulting in increased theft and misappropriation.

The points raised are noted and it is expected that once embedded, the new policy will address the issues identified. As with issue 8, the easing of COVID-19 suppression measures will further improve the situation.

The timber security SOP has now been published on Saltire and a webinar programmed for Regional staff on 30 June 2022.

The M&S data analyst is being tasked with developing new MI reports that measure performance against SOP targets and identify patterns / trends of potential non-compliance by hauliers for increased and targeted spot checks. These performance measures will be subject to monthly monitoring from 1st July 2022 and follow up action in accordance with section 20 of the timber governance:

The Delivery Manager will ensure the minimum spot check percentage targets for high risk and standard risk contracts are achieved

To ensure continued security of the site/s, the Contract Manager will undertake regular reviews throughout the lifetime of the contract

Overall responsibility: Mick Bottomley

Responsible officer(s) – Stuart MacKinnon / David Marais Reynolds / Graham Godsman / Delivery Managers

July 2022

## 11 Sub-compartment database (SCDB) – accuracy of information

As noted the points raised will be pursued in the system development work and certainly embedding a

The SCDB forms the basis of information required for the valuation of biological assets, forest estate and other land uses, and performance management information.

As reported previously:

- there is a target in place whereby all updates must be made in the SCDB within 12-weeks of notification of the change in order to ensure the accuracy of the database. This is not formally monitored, although it is a well-known and adhered to target within the organisation
- there is currently no formal check or approval of updates made to the database: once the GIS technician inputs the information across all required fields, this change is then made.

Management should consider formally monitoring the 12-week target for updates to the system, and the review and approval of updates made by GIS technicians. This would result in more robust assurance over the integrity and accuracy of the information held in the SCDB. It would also strengthen the checks and processes underpinning the year-end assurance certificate that is provided to the finance team for the year-end revaluation exercise.

We are aware from discussions with Forestry and Land Scotland that system functionality is improving which should enable this formalisation of monitoring.

**Risk:** There is a risk that the information held in the SCDB is not up to date and accurate.

management review of timely updates can be incorporated swiftly.

Further work and research are needed before commitment to automate approval of technician updates can be agreed to, while this is undertaken management remain assured that current processes maintain a sufficient level of assurance but agree that the pursuit of best practice processes is warranted in this critical database.

A meeting will be held with Planning Managers by the end of June to formalise how the recommendations can be met.

Responsible officer – Greig Crawford

---

Source: Audit Scotland

---

**15.** All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Forestry and Land Scotland

## 2021/22 Management report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)