

Scottish Forestry

2021/22 Annual Audit Plan



 AUDIT SCOTLAND

Prepared for Scottish Forestry
March 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Scottish Forestry. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- review of Scottish Forestry's participation in the National Fraud Initiative.

Impact of Covid-19

2. The Covid-19 pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to Scottish Forestry through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help Scottish Forestry promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Assurance Committee and actively participate in discussions.

Respective responsibilities of the auditor and Scottish Forestry

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Scottish Forestry. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give independent opinions on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within Scottish Forestry to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Scottish Forestry responsibilities

8. Scottish Forestry is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, Scottish Forestry has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Scottish Forestry are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Quantitative materiality levels for Scottish Forestry

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure, per the 2020/21 audited annual report and accounts.	£890,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£670,000
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 as 5% of planning materiality.	£45,000

Source: 2020/21 Scottish Forestry annual report and accounts; Audit Scotland.

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of Scottish Forestry, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of management override of controls</p> <p>International Standard on Auditing (ISA) (UK) 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>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing and test journal entries focussing on areas of significant risk. Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Focussed testing of year end payables and receivables. Evaluate significant transactions outside the normal course of business. Assess accounting estimates, including any changes to the methods and underlying assumptions compared to the prior year. Focused testing on accounting adjustments at the year end.
<p>2. Risk of fraud in grant expenditure</p> <p>ISA (UK) 240, the Code of Audit Practice and the Financial Reporting Council's Practice Note 10 require</p>	<p>Effective budgetary control arrangements.</p> <p>Well established financial systems</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over grant expenditure. Substantive testing, and some specific controls testing, of grant expenditure to ensure that grants are

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>auditors to assess the risk of fraud over expenditure. Scottish Forestry incurs a material amount of grant expenditure through payments made to a range of individuals and organisations (2020/21: £31.7 million).</p> <p>Due to the volume, value and complexity of the payments made, there is an inherent risk of fraud in grant expenditure.</p>	<p>and effective internal controls. Effective counter fraud and whistleblowing procedures in place. Sample checks are carried out by Finance & Business Support Staff on grant payments after the payment has been made to ensure all procedures have been undertaken.</p>	<p>paid only when grant conditions have been met.</p> <ul style="list-style-type: none"> • Substantive cut-off testing of grant expenditure to ensure accounted for in the correct financial year. • Review of accounting entries and related disclosures in relation to grant expenditure.

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for Scottish Forestry because Scottish Forestry's main source of income is Scottish Government funding and EU funding received via the Scottish Government's Rural Payments and Inspections Directorate to support grants under the Scottish Rural Development Programme. We do not consider this funding to be subject to a significant risk of fraudulent recognition.

Other areas of audit focus

16. As part of our assessment of audit risks, we have identified one other area where we consider there is also a risk of material misstatement to the financial statements:

- **Accrued EU income:** Scottish Forestry deliver the Forestry Grant Scheme and the legacy forestry scheme, Rural Priorities, under the Scottish Rural Development Programme. These schemes are co-financed between the Scottish Government and the EU, and Scottish Forestry accrue income due from the EU. The 2020/21 financial statements recorded £12.8 million relating to grant payments made by Scottish Forestry for which EU funding was to be claimed in 2021/22. There is a risk that expenditure incurred does not comply with EU regulations and Scottish Forestry do not fully recover the income accrued.

17. Our planned audit work in response to this risk includes sample testing of EU grant payments to ensure regulations have been complied with and the correct co-financing rate has been applied. We will also sample test accrued income to ensure it is accounted for in the correct financial year.

18. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses. If our assessment of risk changes and we consider this risk to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

Audit risk assessment process

19. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

20. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

21. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

Exhibit 3

Audit dimensions



Source: Code of Audit Practice

22. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual

audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Duty of Best Value

23. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will carry out a high-level review to confirm that such arrangements are in place within Scottish Forestry.

24. Additionally, as part our Best Value work, we will be carrying out a high-level review of the Best Value characteristic “equalities” within Scottish Forestry during 2021/22.

Audit dimension risks

25. We have identified one audit dimension risk as set out in [Exhibit 4](#). This exhibit details the risk, sources of assurance from management, and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 4

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial sustainability – financial and workforce planning</p> <p>Scottish Forestry’s achievement of its targets and commitments remains challenging. Additional resource will be required to deliver on commitments such as increased planting targets (18,000 hectares per annum by 2024).</p> <p>Longer-term financial and workforce plans have yet to be developed by Scottish</p>	<p>Scottish Forestry have undertaken financial and workforce planning as part of the budgetary process within Scottish Government and are working to further enhance the planning.</p>	<ul style="list-style-type: none"> • Review of financial and performance reporting. • Ongoing discussions with management and monitoring of progress made in developing longer-term plans.

Description of risk	Sources of assurance	Planned audit response
<p>Forestry. There is a risk that, without detailed workforce or financial plans in place Scottish Forestry will not be able to anticipate the resources required to successfully deliver its objectives.</p>		

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

26. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 5](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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

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

29. [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report in line with statutory deadlines. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 5 2021/22 Audit outputs

Audit Output	Target date	Audit and Assurance Committee Date
Annual Audit Plan	28 February 2022*	30 March 2022
Independent Auditor's Report	August 2022*	September 2022*
Annual Audit Report	August 2022*	September 2022*

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

Source: Audit Scotland

Timetable

30. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

31. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to bring the reporting of audited accounts back toward pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

32. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6 Annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	31 May 2022
Latest date for final clearance meeting with the Head of Finance and Business Support and Senior Finance Manager	July 2022*
Issue of Letter of Representation and proposed Independent Auditor's Report	August 2022*
Agreement of audited and unsigned annual report and accounts	August 2022*
Issue of Annual Audit Report to those charged with governance	August 2022*
Signed Independent Auditor's Report	September 2022*
Latest date for signing of Scottish Government Consolidation return	September 2022*

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

Source: Audit Scotland

Notional audit fee

33. The agreed notional audit fee for the 2021/22 audit of Scottish Forestry is £52,330 (2020/21: £51,280). In determining the audit fee, we have taken account of the risk exposure of Scottish Forestry, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

34. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Other matters

Internal audit

35. International Standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

36. Internal audit is provided by the Scottish Government Directorate for Internal Audit and Assurance. We will place reliance on Audit Scotland's Scottish Government external audit team's review of the internal audit function and will report any significant findings to management on a timely basis.

37. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We do plan to consider the findings of internal audit across a range of work including forestry grant schemes, budgeting, workforce planning and procurement governance, guidance and controls.

Independence and objectivity

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

39. The engagement lead and appointed auditor) for Scottish Forestry is Mark Taylor, Audit Director. Auditing and ethical standards require the appointed

auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Scottish Forestry.

Quality control

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

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

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

Scottish Forestry

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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

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk