

Scottish Forestry

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Scottish Forestry and the Auditor General for Scotland

October 2022

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Key messages

2021/22 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 The financial statements of Scottish Forestry give a true and fair view of the financial position at 31 March 2022 and of its net expenditure.
- 3 The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 4 The annual report and accounts have been properly prepared in accordance with the financial reporting framework.

Financial management

- 5 Scottish Forestry reported an underspend of £20.1 million. This primarily relates to planting targets not being achieved in year, and consequently the spending on planting was less than the funding available.
- 6 Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

Financial sustainability

- 7 Longer-term financial plans supported by an overarching workforce strategy need to be developed by Scottish Forestry to support delivery of challenging planting targets.
- 8 An operating budget of £90.9 million has been agreed for 2022/23.

Governance and transparency

- 9 Scottish Forestry has appropriate and effective governance arrangements in place.
- 10 Business plans have moved to a new cycle covering the year starting from June. The 2022/23 business plan is still to be completed.

Value for money

- 11 Scottish Forestry achieved 20 out of its 48 performance priorities, with a further 25 ongoing into 2022/23. Three activities were not achieved.

- 12** Performance reporting can be enhanced through the use of more measurable activities and including KPIs to better demonstrate achievements.

Introduction

1. This report summarises the findings from our 2021/22 audit of Scottish Forestry.
2. The scope of our audit was set out in our Annual Audit Plan presented to the 30 March 2022 meeting of the Audit and Assurance Committee. This report comprises the findings from:
 - an audit of Scottish Forestry's annual report and accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The main elements of our audit work in 2021/22 have been:
 - an audit of Scottish Forestry's 2021/22 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - a review of the body's key financial systems
 - consideration of the four audit dimensions.
4. The global coronavirus pandemic has had some impact on Scottish Forestry during 2021/22. Staff whose roles allow it, have predominately been working from home, but planting inspections have been able to be carried out throughout the year. There were no specific risks relating to the pandemic included in our annual audit plan. We reviewed our assessment of the key risks in advance of the year-end financial statement audit, and considered that our risk assessment remained relevant, and there were no new or emerging risks that affect our audit.

Adding value through the audit

5. We add value to the body 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 2](#)) and good practice guides
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

- 6.** Scottish Forestry 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 account's direction from the Scottish Ministers.
- 7.** Also, Scottish Forestry is responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.
- 8.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016, and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position, and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.
- 9.** This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
- 10.** Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

- 11.** 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.
- 12.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2021/22 notional audit fee of £52,330 as set out in our 2021/22 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
- 13.** This report is addressed to both Scottish Forestry and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.
- 14.** We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Audit appointment from 2022/23

15. The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round. For Scottish Forestry this has been a three-year appointment following the devolution of forestry in Scotland.

16. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Grant Thornton UK LLP will be the appointed auditor for Scottish Forestry. We are working closely with the new auditors to ensure a well-managed transition.

17. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

18. We would like to thank Strategic Advisory Group members, Audit and Assurance Committee members, Senior Executive Team, and other staff, particularly those in finance for their co-operation and assistance over the last three years.

1. Audit of 2021/22 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual accounts are unmodified.

The financial statements of Scottish Forestry give a true and fair view of the financial position at 31 March 2022 and of its net expenditure.

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

The annual report and accounts have been properly prepared in accordance with the financial reporting framework.

Our audit opinions on the annual report and accounts are unmodified

19. The Audit and Assurance Committee on the 11 October 2022 agreed that the annual report and accounts for the year ended 31 March 2022 should be passed to the accountable officer for signing. The accountable officer then approved the annual report and accounts on 11 October 2022. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The annual report and accounts were signed off in line with the agreed timetable

20. The unaudited annual report and accounts were received in line with our agreed audit timetable of the start of June. Key figures relating to grant accruals

were not available until the end of June, with an amended draft annual report and accounts provided at that point to incorporate these figures.

21. The working papers provided to support the accounts were generally of a good standard and the audit team received good support from finance staff which helped ensure the final accounts audit process ran smoothly. All work was carried out remotely and engagement with key finance staff allowed access to the required records and systems.

Overall materiality is £1.06 million

22. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised upwards on receipt of the unaudited annual report and accounts; this is a consequence of gross expenditure being higher than budgeted and is summarised in [Exhibit 1](#).

Exhibit 1 Quantitative materiality values

Materiality level	Amount
Overall materiality	£1.06 million
Performance materiality	£0.8 million
Reporting threshold	£53 k

Source: Audit Scotland

23. In determining performance materiality, we considered the following factors:

- our understanding of Scottish Forestry
- the nature and extent of misstatement identified in previous years
- issues identified through our risk assessment processes.

24. The overall scope of the audit was planned to incorporate the significant assessed risks of material misstatement included within [Exhibit 3](#).

We have significant findings to report on the annual report and accounts

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 body's accounting practices. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Budget monitoring and outturn</p> <p>Net expenditure in year resulted in an underspend of £21.1 million against budget. This was primarily related to forestry grant claims being £16.1 million lower than expected. This was mainly because planting targets were not achieved due to factors including storms in late 2021/early 2022.</p> <p>Scottish Forestry draws down funding based on budgeted levels of expenditure which includes consideration of the grant commitments made in year. The final draw down in year requires to be actioned before March 2022 with the vast majority of planting and therefore claims made in March 2022. Scottish Forestry had drawn down all the cash it considered may be required by March, but actual requirements were less than anticipated. The 2021/22 financial statements record this excess draw down as a creditor with the Scottish Government of £16.3 million.</p>	<p>The excess draw down and underspend against budget was largely due to grant commitments not resulting in subsequent claims, as third parties have not completed the work or chosen to delay their planned planting.</p> <p>The £16.3m creditor has been accounted for in accordance with the Government Financial Reporting Manual and has been agreed with the Scottish Government. Scottish Forestry will now utilise this excess funding in 2022/23.</p> <p>Scottish Forestry should closely monitor projected spend and determine how best to project future cash flows to ensure that only cash required is drawn down from the Scottish Government.</p> <p>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p>
<p>2. Grant accruals and Casebook grant reporting system</p> <p>The year end grant accrual and subsequent co-financing income were understated in the draft accounts by £1.4m and £0.4m respectively (netting to £1m).</p> <p>This stemmed from the Casebook report used for the accruals not identifying all the grant claims which had been approved at year end. This was identified by Scottish Forestry staff when they reviewed the payments made by RPID as part of the reconciliation process in June and identified that not all 2021/22 claims had been correctly accrued.</p>	<p>We carried out sample testing of the additional accruals from Casebook and the June RPID payment report. We also did additional testing on a sample of the July and August RPID payments.</p> <p>This testing ensured that grants which related to 2021/22 were accrued and those relating to 2022/23 were not included in the accounts.</p> <p>We were satisfied from this testing that the additional accrual is appropriate. This has been amended in the annual report and accounts.</p> <p>Recommendation 2</p> <p>(Refer Appendix 1, action plan)</p>
<p>3. Monitoring manual succession contracts</p> <p>Succession contracts are where the right to the receipt of the grant has been transferred to a new landowner. As part of our expenditure testing, we identified these payments are not monitored via</p>	<p>We carried out testing of these manual capital and recurrent payments and identified no issues. No changes were required in the annual report and accounts for 2021/22.</p>

Issue	Resolution
<p>Casebook or the Rural Payments and Services system and are recorded manually in spreadsheets.</p> <p>We identified one claim which had been made in 2019 but was not paid until March 2022. This item had also not been accrued in 2020/21. This raised a concern that this could be a duplicate payment, or that similar items of expenditure and income that should have been accrued in 2021/22 were not correctly recorded at year-end.</p>	<p>We noted that there should be improved controls around manual succession contracts to ensure a clearer trail of these transactions being recorded in the ledger.</p> <p>Recommendation 3 (Refer Appendix 1, action plan)</p>
<p>4. Small woodlands loan scheme repayments</p> <p>The small woodlands loan scheme (SWLS) was introduced in 2021/22 which allows funds to be loaned to third parties to support development of woodlands no greater in size than 50 hectares.</p> <p>The SWLS provides 50% of the value of capital items in an approved Forestry Grant Scheme contract, subject to a maximum limit of £40,000 up front to support development.</p> <p>The third party then would submit the grant claim, and the balance of the loan would be deducted from this and repaid to Scottish Forestry.</p> <p>Five loans totalling £89k were issued in year.</p> <p>A specific financial transactions budget of £1m was provided by the Scottish Government for this project.</p>	<p>As the woodland scheme develops over the upcoming years and there is increased participation, Scottish Forestry requires to keep the actual experiences of loans repayments under review and any provision to reflect this.</p> <p>In addition, the accounting policies and reporting will require expansion if this becomes a more significant account area.</p> <p>The process notes used to support this work will require to be updated and reviewed to ensure that the accounting assumptions are appropriate.</p> <p>Recommendation 4 (Refer Appendix 1, action plan)</p>

Source: Audit Scotland

26. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan audit. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<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>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing and test journal entries focusing 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. • Focused 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>We did not identify any significant issues in our work on journals or accounting estimates. Our testing of accruals and prepayments did not identify any errors and our work on income and expenditure did not identify any significant transactions outside the normal course of business.</p> <p>Conclusion: Satisfactory</p>
<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 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</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 paid only when grant conditions have been met. • Substantive cut-off testing of grant expenditure to ensure accounted for in the correct financial year. • Review of accounting entries and related 	<p>Controls and substantive testing over grant expenditure were satisfactory with no issues identified.</p> <p>Issues were identified with the grant accrual. As described in Exhibit 2, we are satisfied this relates to the reporting functionality of Casebook rather than any fraudulent activity.</p> <p>Conclusion: No fraud has been identified, but we have made a recommendation regarding Casebook functionality in Appendix 1.</p>

Audit risk	Assurance procedure	Results and conclusions
risk of fraud in grant expenditure.	disclosures in relation to grant expenditure.	

Other areas of audit focus

27. We identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The areas of specific audit focus related to accrued EU income:

- 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.

28. We kept this area under review throughout our audit. Based on the findings of the audit procedures performed, there are no further matters which we need to bring to your attention.

Identified misstatements of £1.8 million were adjusted in the accounts. We carried out additional testing of grants to confirm that there was no risk of undetected misstatements

29. Total misstatements identified were £1.8 million (£1.4m grant accrual, and £0.4m co-financing income).

30. We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and relate to Casebook functionality. We reviewed our audit approach and carried out additional testing of items paid across June to August by RPID to ensure that the grants from 2021/22 were now accrued, and that grants relating to 2022/23 were not included in the accrual. We are satisfied that the accrual appropriately reflects the year end position for Scottish Forestry.

31. Adjustments made in the audited accounts increased net expenditure in the Statement of Comprehensive Net Expenditure by £1.0m. The net assets in the Statement of Financial Position are not impacted by this because the increase in payables is offset by a reduction in the amount due to the Scottish Government.

32. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering

advice from senior officers and materiality. Management have adjusted all identified misstatements above our reporting threshold; there are no unadjusted errors to report.

Some progress was made on prior year recommendations

33. Scottish Forestry has made some progress in implementing our prior year audit recommendations, in relation to financial and workforce planning, with further work planned. There still requires to be improvement in Casebook reporting and further progress in developing longer-term financial planning and KPIs (key performance indicators). For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

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

Main judgements

Scottish Forestry reported an underspend of £20.1 million. This primarily relates to planting targets not being achieved in year, and consequently the spending on planting was less than the funding available.

Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

Scottish Forestry operated within its revised budget in 2021/22

34. The main financial objective for the body is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

35. Scottish Forestry has reported an outturn of £57.1 million against its overall budget of £77.3 million for 2021/22, with an underspend of £20.1 million. The financial performance against total resources is shown in [Exhibit 4](#).

Exhibit 4

Performance against funding in 2021/22

Performance	Initial budget £m	Final budget £m	Outturn £m	Over / (under) spend £m
Outturn	82.730	77.261	57.141	(20.120)
Financial transactions	1.000	1.000	0.089	(0.911)

Source: Audit Scotland

36. Scottish Forestry's budget was revised downwards as part of the autumn and spring budget revision process. The net budgeted expenditure position reduced by £5.5 million. The major changes included:

- Increased funding of £5 million for ‘other programme costs’ to support the strategic timber transport strategy was provided.
- £10.5 million amount of co-financing income (receipts) was included in the autumn budget revision, which reduces the net budgeted expenditure position.

37. £1 million of financial transactions funding was provided to Scottish Forestry to support the Small Woodlands Loan Scheme. Loans totalling £0.089 million to five parties have been issued. As noted in [Exhibit 2](#), as this scheme grows and develops, Scottish Forestry needs to keep the actual experiences of loans repayments under review and ensure process notes remain appropriate.

38. As noted previously, Scottish Forestry’s projected outturn position changed late in the financial year, as less grants were claimed by third parties compared to grant commitments. This has resulted in an excess of £16.3 million drawn down in funding. As discussed in [Exhibit 2](#), Scottish Forestry should further improve the monitoring and projection of spending on grants which should ensure that only cash required is drawn down from the Scottish Government.

39. We observed that senior management and the board continued to receive regular, timely updates on financial information on Scottish Forestry’s financial position during the year.

Scottish Forestry records net liabilities in the statement of financial position

40. The statement of financial position summarises what is owned and owed by Scottish Forestry. This shows taxpayers’ equity – an accounting measurement of the amount invested that has continuing public benefit.

41. The financial statements show that Scottish Forestry had net liabilities of £3.1 million at year end. This position is largely as a result of the low baseline value of property, plant and equipment. This is not considered an issue in relation to the going concern of Scottish Forestry, as funding is received from the Scottish Government on an ongoing basis.

Financial systems of internal control are operating effectively

42. Forestry and Land Scotland provide a number of key financial systems to Scottish Forestry including general ledger services and payroll, under a service level agreement. We obtained assurances from the external auditors of Forestry and Land Scotland that key controls within the core systems were generally operating as expected.

43. We also carried out walkthroughs and a review of key financial controls operated by Scottish Forestry. This work involved a review of controls over systems including banking and grants. We conclude that the local controls were appropriate and operating as expected. Minor housekeeping points were raised with the finance team.

We considered the work of internal audit in 2021/22

44. The body’s internal audit function is carried out by the Scottish Government’s Directorate for Internal Audit and Assurance. The Public Sector Internal Audit Standards (PSIAS) require the chief internal auditor to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2021/22 is that of reasonable assurance, which is defined as “controls are adequate but require improvement”. The internal audit team completed all planned work for 2021/22.

45. We reviewed the body’s internal audit function in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit. We assessed that we could place reliance on the work of internal audit. We have taken cognisance of the reporting in year to support our wider dimensions audit responsibilities and our audit intelligence.

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

46. There are appropriate arrangements for the prevention and detection of fraud, error, and irregularities. Scottish Forestry is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

47. We have reviewed the arrangements in place to maintain standards of conduct including the staff handbook, the whistleblowing policy and the members’ code of conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

48. National Fraud Initiative – The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. [Exhibit 5](#) summarises the result for Scottish Forestry.

Exhibit 5 NFI activity



208

Matches



3

Classified as high
fraud risk



208

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

49. We were pleased to note that all matches were investigated. No instances of fraud (alleged or actual) or error were identified from this work. We noted that Scottish Forestry were proactive in the work, and that staff carry out work offline on a spreadsheet and then update the NFI system. There is scope for more information and detail from the work carried out to be documented on the NFI system, particularly for matches which are recommended for investigation to better evidence the work done.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

Longer-term financial plans supported by an overarching workforce strategy need to be developed by Scottish Forestry to support delivery of challenging planting targets.

An operating budget of £90.9 million has been agreed for 2022/23.

50. [Exhibit 6](#) sets out the wider dimension risk we identified in our 2021/22 audit, our assurance procedures and the results and conclusions from our work. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

Exhibit 6

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

Audit risk	Assurance procedure	Results and conclusions
<p>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 Forestry. There is a risk that, without detailed workforce or financial plans in place Scottish Forestry will not be able to anticipate the</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. 	<p>Scottish Forestry prepared forecasts for future resource and capital requirements over the next five years and has developed plans for staff resources in 2022/23. Scottish Forestry should look to develop this further into longer term financial and workforce plans. These scenarios could include the impact of increased planting targets to support the Scottish Government's journey to 'net zero' and reductions in cash budgets.</p> <p>Conclusion: Scottish Forestry should further develop longer term financial and workforce plans.</p>

Audit risk	Assurance procedure	Results and conclusions
resources required to successfully deliver its objectives.		(Refer to paragraphs 53-54 and Appendix, action plan)

Scottish Forestry's budget has increased for 2022/23 to reflect increased planting targets

51. Scottish Forestry's budget for 2022/23 has increased to £90.9 million. This is an increase of 8.6% on the original 2021/22 budget, and 16.1% on the final budget for 2021/22. A balanced budget has been set for 2022/23.

52. The increased funding from the Scottish Government identifies increases in program and running costs to support an increase in staff resources to deliver the increased targets as Scottish Forestry moves towards the national 18,000 hectares per year planting targets by 2024/25, with a target of 15,000 hectares in 2022/23. The challenges of delivering these targets emphasises the need for developing robust longer term financial plans, which identify the level of resources to support delivery of this work.

Scottish Forestry has started developing the building blocks for financial and workforce plans

53. To support the Scottish Government spending review, Scottish Forestry has carried out forecasting of budgets over the next five years. This includes scenario planning of flat cash and lower funding levels than would be anticipated. It is recognised that there is a need for better management information, including on grants, to help support the development of a longer-term financial strategy. The work on developing the strategy should build on the scenario planning already being undertaken and the development of the new forestry grant schemes.

54. Work has also begun on a target operating model (TOM). This includes the current ongoing work to move to more geographical conservancies. New posts required for the organisation were also identified through this work and there are linkages to the annual budget setting process at Scottish Forestry. As also noted by internal audit in its work, there is no overarching workforce strategy. A workforce strategy which links to the financial strategy will help deliver the capacity and capabilities needed to deliver on planting targets.

Recommendation 5

Scottish Forestry should look to develop a longer-term financial strategy and overarching workforce strategy to help plan how to deliver increasing planting targets.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

Scottish Forestry has appropriate and effective governance arrangements in place.

Business plans have moved to a new cycle covering the year starting from June. The 2022/23 business plan is still to be completed.

The governance arrangements and controls operating throughout the Covid-19 pandemic have been appropriate

55. We have considered the governance arrangements at Scottish Forestry and have concluded that overall there are appropriate governance arrangements in place.

56. There has been no significant impact from the Covid-19 pandemic on Scottish Forestry's governance arrangements. As reported last year, Scottish Forestry was proactive and quickly made the move to having remote meetings and this continues to take place during 2021/22 and this has been set out in the Governance Statement. A Covid-19 resilience group had been in place during 2020/21 reporting to the Executive Team (ET), but this work has now been subsumed into the working of the ET and is now business as usual.

57. Scottish Forestry has governance arrangements in place to support the Chief Executive in the delivery of his responsibilities. These include a Strategic Advisory Group and an Audit and Assurance Committee.

58. We attend all meetings of the Audit and Assurance Committee and can conclude there is an appropriate level of scrutiny from the members.

59. We have confirmed that these arrangements have been maintained in 2021/22 and remain appropriate.

Assurances are provided to the Chief Executive

60. HM Treasury's Financial Reporting Manual (the FReM) requires the inclusion of a governance statement within the annual report and accounts. Guidance is set out with in the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives.

61. The SPFM provides guidance on the content and format of the certificates of assurance that are provided to the Accountable Officer to support the signing of the governance statement. Scottish Forestry adapts the SPFM checklist to ensure it meets its needs. Whilst this means there are some more Scottish forestry specific assurances included in the checklist including expenses, there is the risk that not all recommended areas included in the SPFM are disclosed.

62. We identified some areas in the model checklist which did not have adequate coverage in the Scottish Forestry checklist. Additional information was supplied to support these areas. We would encourage Scottish Forestry to ensure the most up to date internal control checklist from the SPFM is reviewed to ensure that checklists used in future years reflect the level of detail and coverage included in the SPFM example, including new areas of focus.

The corporate plan is supported by an annual business plan

63. The first Scottish Forestry corporate plan covers the period 2020-2023. The plan details the three main strategic objectives in place, and the priorities in place to support the delivery of the objectives.

64. The 2021/22 business plan identifies how Scottish Forestry will make progress against its strategic objectives. The focus in this plan also reflects Scottish Forestry's role in helping the forestry industry rebound following the Covid-19 pandemic. This plan also communicated the new corporate BRAVE values introduced in April 2021; professionalism; respect; honesty and integrity; teamwork and collaboration; and innovation and creativity.

65. The 2022/23 business plan is not yet available. During 2021/22 it was determined that business plans will cover the year from June rather than being aligned to the financial year. This is to reflect that the Scottish Forestry work is busiest around the end of the financial year, due to the planting season. The 2022/23 business plan is expected to be completed in September, with the delay due to staff resourcing pressures.

66. Scotland's Forestry Strategy implementation plan 2022-2025 has been published and this details ambitions across the wider forestry sector. This has six priority areas for the sector, each of which has underlying objectives. Scottish Forestry's delivery of the Forestry Grant Scheme supports the overarching priority of ensuring forests and woodlands are sustainably managed. This supports the wider Scottish Government's objective of moving towards Net Zero by 2045.

5. Value for money

Using resources effectively and continually improving services

Main judgements

Scottish Forestry achieved 20 out of its 48 performance priorities, with a further 25 ongoing into 2022/23. Three activities were not achieved.

Performance reporting can be enhanced through the use of more measurable activities and including KPIs to better demonstrate achievements.

Scottish Forestry has developed an appropriate Best Value framework

67. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

68. The Chief Executive of Scottish Forestry is the designated Accountable Officer. The Scottish Forestry Framework Document requires the Accountable Officer to report each year, in the annual report and accounts, on the steps taken in each financial year to improve efficiency, effectiveness and economy. The narrative included in the performance report and corporate governance report in the annual report and accounts covers this required detail. We would encourage Scottish Forestry to draw this material together in the governance statement of future annual reports and accounts.

Scottish Forestry achieved 20 out of its 48 performance priorities

69. Scottish Forestry's corporate plan 2020-2023 has three strategic objectives covering 17 operational objectives. The annual business plan then has a number of performance priorities which are used to demonstrate achievement of the operational objectives. These priorities are revised annually. In 2021/22 there were 48 priorities, of which 20 were achieved, 3 were not achieved and 25 were ongoing. Scottish Forestry has reported that these ongoing and not achieved priorities will continue into 2022/23.

70. We note that the woodland creation planting target of 13,500 hectares is now included in the strategic objectives in the 2021/22 Business Plan and is one of 2 key performance indicators (KPI) included in reporting. It was not achieved in 2021/22, with 10,480 hectares (77%) had been planted. Scottish Forestry reported that key factors impacting the planting target included winter storms and availability of labour resources. A new KPI target related to planting

native species trees of 4,000 hectares was achieved, with 4,360 hectares (109%) planted.

71. A KPI report for 2020/21 was published after the publication of the annual report and accounts. It detailed KPIs across the three strategic objectives. The planting and native species planting were included as well as a number of points relating to equality and diversity in Scottish Forestry, employee engagement scores, and those supporting regulatory information, for example, responding to freedom of information requests.

The performance report will benefit from more focused and measurable performance activities

72. In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of Scottish Forestry's performance report. The performance report should provide information on a body, its main objectives and the principal risks faced by the Scottish Forestry. Additionally, it should provide a fair, balanced and understandable analysis of performance in year as well as helping stakeholders understand the financial statements.

73. As the performance activities in the business plan are refreshed each year, it is more difficult to assess Scottish Forestry's progress each year, particularly when some activities are not achieved in year. In addition, these activities are not always measurable and more akin to business-as-usual activities, which result in many activities classified as ongoing at year end and making it more difficult to show Scottish forestry's contribution to the Scottish economy.

74. There is scope for the future business plans to have more focused and measurable activities which will better enable ongoing performance management and allow clearer reporting in future annual reports and accounts. For example, including a KPI on tonnes of timber taken off roads would highlight the impact of the work on Strategic Timber Transport. The performance report would benefit from having these wider KPIs included in reporting as this will also show trends over time and better demonstrate Scottish Forestry performance.

Recommendation 6

The annual report and accounts would benefit from the inclusion of more business wide KPIs. The performance activities should be more focused and measurable so that Scottish Forestry is better able to manage and demonstrate performance in year.

Scottish Forestry continue to obtain services from Forestry and Land Scotland

75. A service level agreement, covering the period from 1 April 2019 to 31 March 2022 was agreed between Forestry and Land Scotland and Scottish Forestry following the establishment of the new agencies in April 2019. Forestry and Land Scotland provide a number of services on Scottish Forestry's behalf, including human resources, learning and development, digital services, payroll,

and the financial ledger. This helps contribute to the efficient use of public sector resources.

76. This has now been extended to 31 March 2025. A certificate of assurance was obtained from Forestry and Land Scotland at financial year-end, to provide assurance to the Accountable Officer of Scottish Forestry. Although KPIs were included in the original agreement, these were not developed. We note that the new agreement contains clearer detail on measures to monitor performance levels.

Scottish Forestry has arrangements in place to advance equalities

77. Public bodies are required to demonstrate compliance with the Equality Act 2010. As part of our audit work during 2021/22, we considered the arrangements Scottish Forestry has put in place thus far to comply with the Act.

78. Based on our review, we concluded that Scottish Forestry has the necessary arrangements in place to help advance equalities within the organisation and in its external activities. The most recent equalities and mainstreaming report (2019-2021) was published in June 2021.

National performance audit reports

79. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2021/22 several reports were published which may be of direct interest to the body. These are outlined in [Appendix 2](#).

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Management of budget and outturn</p> <p>A large underspend against budget was recorded in 2021/22. Scottish Forestry drew down all cash available from the Scottish Government, which ended up being £16.3 million in excess of requirements.</p> <p>Risk: There is a risk that budget projections are not accurate, leading to challenges for cash management.</p>	<p>Scottish Forestry should improve the monitoring and projected spend, particularly for grants, to ensure that only cash required is drawn down.</p> <p>Exhibit 2</p>	<p>We plan on strengthening the current budget monitoring process by introducing increased levels of scrutiny and challenge to key budget areas and lines showing significant variances during the year.</p> <p>A review of FGS (Forestry Grant Scheme) forecast spend has already taken place in 2022/23 leading to identification of a £5m underspend on Woodland Creation which has been notified to SG Finance. Regular reviews of FGS will continue throughout the year with the next review taking place in October after the September clearing round.</p> <p>SF are also participating in the revised SG monthly monitoring process which has been redesigned to better identify emerging underspends, savings and pressures. In addition to this, SF have now established a monthly suite of Management Information (MI) reports issued to SET members for review and comment which includes finance data and measurement of outturn against budget.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>2. Grant accruals and Casebook grant reporting system</p> <p>The Casebook reporting on grant accruals did not provide complete listings resulting in the accrual in the draft accounts being understated.</p> <p>Risk: As the year-end grant accrual is based on information from Casebook, there is a risk that the information recorded in the financial statements is inaccurate.</p>	<p>Scottish Forestry should continue to develop the management reporting functionality in Casebook to ensure accurate information is available for financial reporting, monitoring, and addresses business needs.</p> <p>Exhibit 2</p>	<p>Responsible officer: Head of Finance & Business Support.</p> <p>Agreed date: Ongoing</p> <hr/> <p>This has been delayed due to a lack of capacity to develop reporting for Ops Delivery. This is now resolved and the staff resource is available within the wider Improvement Programme.</p> <p>We are seeking to prioritise this area in order to secure the available resources and deliver the improvements.</p> <p>Responsible officer: Head of Operational Delivery.</p> <p>Agreed date: October 2023</p>
<p>3 Monitoring manual succession contracts</p> <p>These contracts are managed manually and therefore do not have the same workflows as those recorded on Casebook and the system, therefore any errors may not be readily identified.</p> <p>Risk: Payments are not made on a timely manner and transactions are not recorded correctly in the ledger.</p>	<p>Scottish Forestry should determine whether upgrades to the Casebook system would allow these contracts to benefit from the system workflows of an automated system. In the short-term, Scottish Forestry should look to increase controls around these manual contracts to ensure there is a reduced risk of transactions not being recorded in the ledger.</p> <p>Exhibit 2</p>	<p>We acknowledge the risks from the manual processes surrounding administering succeeded FGS contracts. This is as a result of the Paying Agency not agreeing that RP&S functionality is required and instead this is managed by an ever-present risk in the Paying Agency's risk register. We recognised the manual processes required and this was commented upon in the 2021 SF Internal Audit report and recommendations. As a result of Audit Scotland feedback, we have re-organised the spreadsheet to include values and woodland creation quantities so that there is a formal location for referral for end of year reporting and contributions to the ledger.</p> <p>There is unlikely to be capacity to develop FGS contract successions as a</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>casebook case type solution in the next 1-2 years. Future capacity will depend upon progress with Improvement Programme so we will continue to develop and monitor the spreadsheet as the single point of truth for now.</p> <p>Due to the increasing number of succession cases we have included successions in the scope of the current (September 2022) Internal Audit mission for both a critical review and advisory comments.</p> <p>Responsible officer: Grant Schemes Manager.</p> <p>Agreed date: Ongoing</p>
<p>4. Small Woodland Loan Scheme</p> <p>The loan scheme is in its first year and therefore processes for understanding the profile of repayments is still to be developed. In addition, as this scheme grows and becomes significant to the accounts, further reporting is required.</p> <p>Risk: Reporting of the loan scheme in the financial statements is inaccurate.</p>	<p>Scottish Forestry require to learn from experiences regarding the profiling of repayments. In addition, as the scheme becomes significant to the accounts, there will be additional reporting required.</p> <p>Exhibit 2</p>	<p>The Finance Team will review the repayment process in place with a view to assessing the impact of increasing claims on financial accounting and budgeting requirements.</p> <p>Responsible officer: Head of Finance & Business Support.</p> <p>Agreed date: January 2023</p>
<p>5. Financial and workforce planning</p> <p>A longer-term financial strategy has not yet been developed. An overarching work force strategy is not yet in place.</p> <p>Risk: In the absence of longer-term strategies, there is a risk that Scottish Forestry does not have adequate resources and capacity in</p>	<p>Scottish Forestry should look to develop a longer-term financial strategy and overarching workforce strategy to help plan how to deliver increasing planting targets.</p> <p>Paragraph 53-54</p>	<p>SF have continued to participate in SG Spending Reviews which have included financial forecasts up to and including 2026/27. Elements of scenario planning have also been undertaken for next year and beyond to anticipate future SG budget pressures and potential settlements.</p> <p>A review of workforce planning was undertaken by the SGIAAD (Scottish</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>place to deliver on its objectives.</p>		<p>Government Internal Audit and Assurance Directorate) which acknowledged that components of workforce planning were carried out by SF but an overarching strategy was still required.</p> <p>We will look to further develop Financial and Workforce planning with a view to producing an overarching strategy.</p> <p>Responsible officers: Head of Finance & Business Support, Head of Operational Support & Transformation.</p> <p>Agreed date: March 2023</p>
<p>6. Performance reporting</p> <p>The performance report does not have measurable targets and KPIs beyond planting to demonstrate Scottish Forestry's performance.</p> <p>Risk: There is a risk that Scottish Forestry cannot clearly demonstrate its contribution to the Scottish Government's net-zero aims.</p>	<p>The annual report and accounts would benefit from the inclusion of more business wide KPIs. The performance activities should be more focused and measurable so that Scottish Forestry is better able to manage and demonstrate performance in year.</p> <p>Paragraph 73-74</p>	<p>Initial phase of KPI development and implementation was completed during 2021/22 however further progress in this area has been impacted by resource availability.</p> <p>SF plan to improve and develop additional KPIs during 2022/23 and align these with development of the Corporate Strategy.</p> <p>Responsible officers: Head of Finance & Business Support, Head of Executive Office.</p> <p>Agreed date: March 2023</p>

Follow-up of 2020/21 Annual Audit Report recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. 2020/21 AAR</p> <p>Grant accruals</p> <p>Further improvements to the functionality of the Casebook grants system are required to</p>	<p>Scottish Forestry should continue to develop the management reporting functionality in Casebook to ensure accurate information</p>	<p>The Casebook reporting for the 2021/22 accrual grants did not identify all grants accrued at year end. Additional work by Scottish</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>fully meet Scottish Forestry's reporting needs.</p> <p>Risk: As the year-end grant accrual is based on information from Casebook, there is a risk that the information recorded in the financial statements is inaccurate.</p>	<p>is available for financial reporting, monitoring, and addresses business needs.</p>	<p>Forestry staff and additional audit testing was required as a result of this. Scottish Forestry continue to develop system functionality to ensure it fully meets the agency's reporting needs.</p> <p>Ongoing.</p> <p>Refer to Action Plan Point 2 above.</p>
<p>2. 2020/21 AAR</p> <p>Management of budget and outturn</p> <p>A large underspend against budget was recorded in 2020/21. Scottish Forestry drew down all cash available from the Scottish Government, which ended up being in excess of requirements.</p> <p>Risk: There is a risk that budget projections are not accurate, leading to challenges in cash management.</p>	<p>Scottish Forestry should closely monitor projected spend to ensure that only cash required is drawn down.</p>	<p>A large underspend against budget was also recorded in 2021/22. Scottish Forestry again drew down all cash available from the Scottish Government which was in excess of requirements.</p> <p>Monitoring needs to continue in this area to ensure that that only cash required is drawn down.</p> <p>Ongoing.</p> <p>Refer to Action Plan Point 1 above.</p>
<p>3. 2020/21 AAR</p> <p>Financial and workforce planning</p> <p>A longer-term financial strategy has not yet been developed. Work continues to develop a workforce plan for the agency.</p> <p>Risk: In the absence of longer-term plans, there is a risk that Scottish Forestry does not have adequate resources in place to deliver on its objectives.</p>	<p>Scottish Forestry should develop a longer-term financial strategy, supported by clear and detailed financial plans, including consideration of different scenarios. Work should be progressed to develop a workforce plan.</p>	<p>Although some of the key building blocks for longer-term financial planning and an overarching workforce strategy have been put in place, these two strategies have yet to be developed.</p> <p>Ongoing.</p> <p>Refer to Action Plan Point 5 above.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>4. 2020/21 AAR</p> <p>Scottish Forestry do not have key performance indicators with measurable outcomes. These should be developed to demonstrate a clear and visible link between performance and strategic objectives.</p> <p>Risk: There is a risk that Scottish Forestry cannot clearly demonstrate its contribution to the Scottish Government's wider aims and objectives.</p>	<p>A suite of measurable key performance indicators should be developed by Scottish Forestry.</p>	<p>A 2020/21 KPI report was produced after last year's annual report and accounts. However, these are not included in the annual report and accounts.</p> <p>Complete for 2020/21.</p> <p>Refer to Action Plan Point 6 above.</p>

Appendix 2. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Scottish Forestry

2021/22 Annual Audit Report

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