

Scottish Land Commission

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Land Commission and the Auditor General for Scotland
November 2022

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Key messages

2021/22 annual report and accounts

- 1 The Commission's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2 Expenditure and income were incurred in accordance with applicable enactments and guidance.
- 3 The performance report, and audited part of the remuneration and staff report were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Financial sustainability and governance statement

- 4 The Commission operated within its 2021/22 Departmental Expenditure Limit of £1.526m, underspending by £0.001m (0.07%).
- 5 The financial strategy covering the three years to 2023/24 has been revised to reflect the outcome of the recent pay and grading review. More detail is needed on how the risks to financial sustainability arising from increasing staff costs and potentially static or reduced funding will be addressed.
- 6 Governance Statement disclosures are consistent with the financial statements and comply with statutory guidance.
- 7 Appropriate governance arrangements are in place.

Introduction

1. This report summarises the findings from our 2021/22 audit of the Scottish Land Commission ('the Commission').
2. The scope of our audit was set out in our 2021/22 Annual Audit Plan circulated to members of the Audit and Risk Committee in March 2022. This report comprises the findings from:
 - an audit of the Scottish Land Commission's annual report and accounts
 - our consideration of financial sustainability and the appropriateness of disclosures in the governance statement.
3. The global coronavirus pandemic has continued to impact the Commission during 2021/22, although flexibility in planning and managing activity ensured that 100% of planned outputs were fully delivered. New ways of working have been introduced with hot-desking and hybrid working now the norm.

Adding value through the audit

4. We add value to the Scottish Land Commission through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides
 - providing clear conclusions on the appropriateness of the disclosures in the governance statement and financial sustainability.
5. We aim to help the Commission promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. The Commission has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The Commission is also responsible for compliance with legislation, and for putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
7. 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.

8. As public sector auditors we give independent opinions on the annual report and accounts. The wider scope of public audit also requires auditors to conclude on the appropriateness of the organisation's arrangements for financial management, financial sustainability, governance and transparency, and value for money unless the auditor judges that it is not appropriate due to the body's size, nature, and audit risks. As in previous years, we have applied the small body provisions to the Commission's 2021/22 audit for the reasons set out in 2021/22 Annual Audit Plan.

9. This report raises matters from our audit. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

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

Auditor Independence

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 confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and the 2021/22 audit fee of £25,890, 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 the Scottish Land Commission and the Auditor General for Scotland and will be published on Audit Scotland's [website](http://www.audit-scotland.gov.uk) www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

14. 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 was extended for a year so that 2021/22 is the last year of the current appointment round.

15. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Deloitte will be the appointed auditor for the Commission. We will work closely with the new auditors to ensure a well-managed transition.

16. We would like to thank all Board members, management and other staff - particularly those in finance - for their co-operation and assistance over the last five years.

Part 1. Audit of 2021/22 annual report and accounts

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

Main judgements

The Commission's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

Expenditure and income were incurred in accordance with applicable enactments and guidance.

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

Our audit opinions on the annual report and accounts are unmodified

17. The annual report and accounts for the year ended 31 March 2022 were approved by the Board on 01 November 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 are regular and in accordance with applicable enactments and guidance
- the performance report, governance statement and audited part of the remuneration and staff report were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The annual report and accounts were signed off in accordance with our audit timetable

18. The unaudited annual report and accounts were received on 12 June 2022, in line with our agreed audit timetable. The working papers provided to support the accounts were of a good standard. Commission staff were flexible with regards to audit timing, although there were some delays in responding to audit requests. This impacted on the overall efficiency of the audit process.

Overall materiality is £30,000

19. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£30,000
Performance materiality	£23,000
Reporting threshold	£2,000

Source: Annual Audit Plan 2021/22

We have significant findings to report from our audit of the annual report and accounts

20. 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. We have four issues to report from our audit of the annual report and accounts. These are summarised in [Exhibit 2](#).

Exhibit 2 Significant findings from the audit in accordance with ISA260

Issue	Resolution
<p>1. Unaudited annual report and accounts did not comply with the FReM</p> <p>The unaudited annual report and accounts included adjustments (including prior year adjustments) relating to IFRS16 Leases. The implementation of this accounting standard in the public sector does not apply until accounting periods beginning on or after 01 April 2022.</p>	<p>A revised annual report and accounts was submitted for audit on 01 July 2022.</p> <p>Recommendation 1 (refer Appendix 1, action plan)</p>
<p>2. Non-current assets</p> <p>A revised capitalisation policy was agreed during the course of the audit. The accounts were updated to reflect this revised policy which resulted in £17,000 of non-current asset additions</p>	<p>The audited annual report and accounts were updated to reflect the impact of the change in capitalisation policy.</p>

Issue	Resolution
<p>being removed from the balance sheet and recognised as revenue expenditure. This was offset by £2,000 of depreciation expense which was no longer required. The overall impact was to increase revenue expenditure and decrease net assets by £15,000.</p>	
<p>3. Accrual for services not received</p> <p>Amounts in trade payables included an invoice received after year end for services the Commission had not received. As a result, trade payables and expenditure were overstated by £3,000 in the unaudited accounts.</p>	<p>This misstatement has been amended in the audited annual report and accounts.</p>
<p>4. Under-accrual for employer pension contributions</p> <p>The Chief Executive's pay award for 2021/22 was agreed after 31 March 2022 and backdated to 01 April 2021. Amounts accrued in the unaudited accounts for this pay award were understated due to the incorrect salary being used when calculating the increased pension contribution. As a result, trade payables and staff costs were understated by £2,000 in the unaudited accounts.</p>	<p>This misstatement has been amended in the audited annual report and accounts.</p>

Source: Audit Scotland

We undertook additional testing of accruals and did not identify further errors

21. Total misstatements identified were £24,000 which exceeds our performance materiality threshold. We reviewed the nature and causes of these misstatements and concluded that all but one of them arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. In response to item 3 above, we tested a further sample of accruals which did not identify any additional errors.

There are no unadjusted misstatements to report to those charged with governance

22. 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. There are no unadjusted errors to report.

There is no evidence of management override of controls

23. 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. 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 material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries focusing on significant risk areas.</p> <p>Considered the need to test journal entries and other adjustments during the period.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Tested income and expenditure transactions around the year-end to confirm they were accounted for in the correct financial year.</p> <p>Tested accruals and prepayments focusing on significant risk areas.</p>	<p>Results: Our audit work identified some small errors in the calculation of accruals (see Exhibit 2, nos. 3 and 4 for details) but the nature of these did not indicate management override of controls to impact the year-end position.</p> <p>Conclusion: Satisfactory</p>

Some progress was made on our prior year recommendation

24. The Commission has made some progress in implementing our prior year audit recommendation on medium-term financial planning. A revised response and timescale have been agreed with management and are set out in [Appendix 1](#).

Part 2. Financial sustainability and governance statement

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services

Main judgements

The Commission operated within its 2021/22 Departmental Expenditure Limit of £1.526m, underspending by £0.001m (0.07%).

The financial strategy covering the three years to 2023/24 has been revised to reflect the outcome of the recent pay and grading review. More detail is needed on how the risks to financial sustainability arising from increasing staff costs and potentially static or reduced funding will be addressed.

Governance Statement disclosures are consistent with the financial statements and comply with statutory guidance.

Appropriate governance arrangements are in place.

The Commission operated within its Department Expenditure Limit for 2021/22

25. The main financial objective for the Commission is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government. The financial performance against its Departmental Expenditure Limit (DEL) is shown in [Exhibit 4](#).

Exhibit 4 Performance against DEL in 2021/22

Performance	Budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	1.526	1.525	(0.001)

Source: Audit Scotland

26. The Commission reported an outturn of £1.525 million for 2021/22, underspending its overall budget by £1,000 (0.07%) and so met its main financial objective for 2021/22. It also met its internal target to limit any underspend to below 2% of its budget allocation.

27. The Commission drew down £1.470 million of its allocated grant-in-aid. This was agreed with the Scottish Government as best use of available funds and was intentional in order to reduce the balance held in the general reserve. The reserves balance at 31 March 2022 was £13,000 (2021: £68,000).

There has been an increase in funding for 2022/23

28. The Commission received a 1.6% increase in grant-in-aid funding (£1.550 million) for 2022/23. The agreed budget for 2022/23 of £1.623 million exceeds the grant-in-aid funding available from the Scottish Government by £0.073 million (5%). This planned over-programming is part of the Commission's approach to minimising any budget underspends.

29. The latest budget monitoring report, presented to the Audit and Risk Committee in September 2022, shows that £0.313 million (19%) of the 2021/22 budget was uncommitted as at 29 August 2022. This compares to 17% in July 2021.

The medium-term financial plan has been reviewed but still lacks detail on how the risks identified will be addressed

30. A financial strategy covering the three years to 2023/24 was presented to the Audit and Risk Committee in November 2020. The strategy identified a number of key issues including:

- all funding is via grant-in-aid with no other source of income
- government finances are expected to remain highly constrained for the coming 3-5 years with likely pressure to reduce budget allocations
- staffing, Commissioner, and fixed costs account for 69% of the annual budget leaving only 31% for completion of the outputs set out in the annual programme of works.

31. The 2021/22 budget papers further developed the financial strategy including setting a target of maintaining a ratio of approximately 70%/30% for fixed/flexible costs to provide sufficient flexibility to respond to future years' budget settlements.

32. We reviewed the strategy, and budget papers, as part of our 2020/21 audit and concluded that it contained a good assessment of the risks to financial sustainability faced by the Commission. More detail was required, however, on how these will be addressed. We also noted that it had not been updated to reflect the impact of the recent pay and grading review.

33. The Commission reviewed its financial strategy in March and December 2021. The December paper notes that the pay and grading review during 2021/22 added just under 1% to pay costs, and that the most significant cost pressure continues to be increases in staff costs from annual pay settlements

against a static grant-in-aid allocation. Staff costs have increased steadily year on year and are budgeted to account for 62% of the grant-in-aid allocation for 2022/23.

34. The Commission has made some progress with identifying measures to address these risks. Accommodation costs have been reviewed and the Commission has recently signed a five-year agreement to rent desk space from another public sector body. It is anticipated that this will reduce office costs by 1% of budget each year (£16,358 reduction). The Commission also plans to make greater use of fixed term employment contracts to provide greater flexibility in the future. These measures alone, however, will not address the need to reduce fixed costs to the target level of 70%.

Recommendation b/f 1

The Commission needs to consider in more detail how it will address the risks to financial sustainability from increasing staff costs and a potentially static or reduced funding allocation

Governance Statement disclosures are consistent with the financial statements and comply with statutory guidance

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

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

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

Appropriate governance arrangements are in place

38. During 2021/22 Board and Committee meetings started to be held on a hybrid basis, with some members using Microsoft Teams (or equivalent) and others attending meetings in person. This is reflective of the general change in working practices being seen across the public sector as a result of the Covid-19 pandemic.

39. Our review of the minutes and papers submitted to the Board throughout the year concluded that Board papers are sufficiently detailed and comprehensive to allow for effective decision making and scrutiny of performance. Board papers and minutes are readily accessible on the Scottish Land Commission's website.

40. We regularly attend Audit and Risk Committee meetings and note that these are well attended. Papers are circulated in good time and members provide effective scrutiny and challenge. The Chair of the Audit and Risk Committee provides a verbal update on key issues discussed to each meeting of the Board and these updates are recorded as part of the Board minutes.

National performance audit reports

41. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 2](#) highlights a number of the reports published in 2021/22.

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Compliance with FReM</p> <p>The unaudited annual report and accounts included adjustments (including prior year adjustments) relating to IFRS16 Leases. The implementation of this accounting standard in the public sector does not apply until accounting periods beginning on or after 01 April 2022</p> <p>Risk – there is a risk that the annual report and accounts do not comply with the financial reporting framework.</p>	<p>The Commission should ensure it is familiar with the requirements of the Financial Reporting Manual when preparing the annual report and accounts.</p> <p>Exhibit 2, no. 1</p>	<p>Going forward a meeting will be held with the Commission’s accountants to discuss updates/changes to the FReM and its full requirements prior to the drafting of the working papers and accounts. This will happen prior to year-end around February/ early March.</p> <p>Responsible officer:</p> <p>Finance and Business Systems Manager</p> <p>Agreed date:</p> <p>31 March 2023</p>

Progress against prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Financial Strategy Improvement</p> <p>The Commission’s financial strategy is a good assessment of the risks to financial sustainability faced by the Commission but requires more detail on how these will be addressed. It also does not reflect the</p>	<p>The financial strategy should be updated to reflect the impact of the recently completed pay and grading review, and to provide more detail on how the risks to financial sustainability identified will be addressed.</p> <p>Paragraphs 30 to 34</p>	<p>Partially complete</p> <p>The financial strategy was reviewed by the Board in March and December 2021 and updated to reflect the recent pay and grading review.</p> <p>Arrangements have been made to reduce the cost of the Commission’s</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>impact of the recently concluded pay and grading review</p> <p>Risk – there is a risk that the Commission does not respond quickly to changes in funding levels.</p>		<p>accommodation over the medium term.</p> <p>There remains a lack of detail as to how the risks posed by increasing staff costs and a potentially static or reduced funding allocation will be addressed.</p> <p>Revised action:</p> <p>The Financial Strategy will be refreshed in conjunction with the development of the 2023-24 business plan at the end of March 2023. It will include potential risks, budget scenarios and options to address potential risks.</p> <p>Responsible officer:</p> <p>Chief Executive</p> <p>Revised date:</p> <p>31 March 2023</p>

Appendix 2. 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 Land Commission

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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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