

Forestry Commission Scotland

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

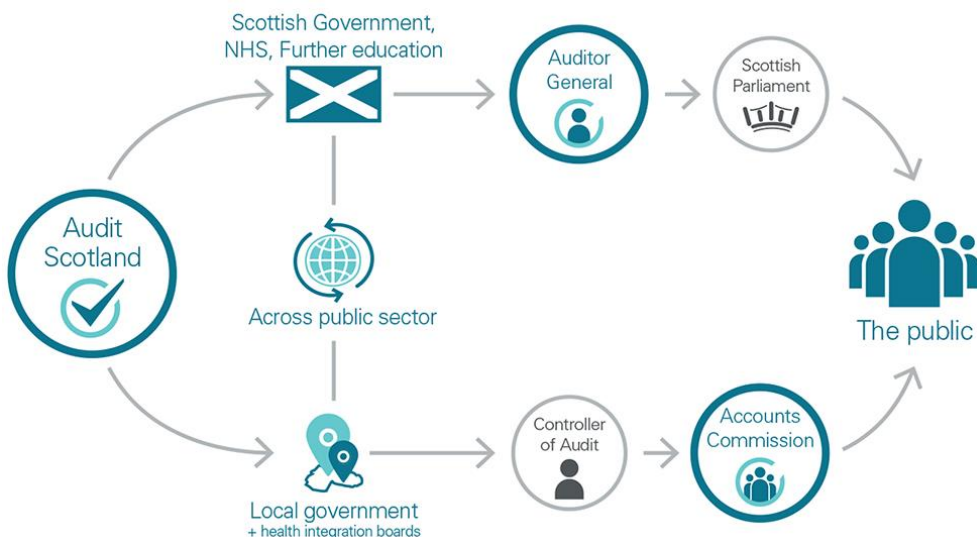
Prepared for Forestry Commission ScotlandForestry Commission Scotland

March 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Risks and planned work	4
Audit risks	4
Reporting arrangements	6
Audit fee	7
Responsibilities	7
Audit scope and timing	8
Financial statements	8
Materiality	8
Internal audit	10
Audit dimensions	10
Independence and objectivity	12
Quality control	12
Adding Value	12

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main audit risk areas for Forestry Commission Scotland (FCS). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of year-end payables and receivables.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the year end to confirm expenditure and income have been accounted for in the correct financial year.</p>
<p>2 Risk of fraud over grant expenditure</p> <p>ISA240 and the Code of Audit Practice require auditors to consider the risk of fraud over certain types of public sector expenditure. This includes grants</p>	<p>Effective controls are in place to vet all grant recipients.</p> <p>Specific controls in place to vet expenditure by recipients of grants.</p>	<p>Analytical procedures.</p> <p>Review of controls in place over grant expenditure to address the risk of fraud.</p> <p>Substantive testing of expenditure transactions</p>

Audit Risk	Source of assurance	Planned audit work
<p>and other claims made by individuals and organisations on the public purse. FCS administers a significant number of grants to private woodland owners from EU receipts as well as other general support grants.</p> <p>There is an inherent risk of fraud over the payment of grants.</p>		<p>focussing on the areas of greatest risk.</p> <p>Reliance on Internal Audit's review of SRDP grants (legacy and new grants).</p> <p>Review and reliance on FCS Finance team's review of SRDP grants.</p> <p>Focused testing of year-end payables.</p> <p>Review of FCS's anti-fraud arrangements including application of Your Reputation @ Risk survey (to be discussed with management).</p>
<p>3 EU funded grant schemes</p> <p>The Forestry Grant Scheme is a discrete scheme under the Scottish Rural Development Programme. FCS is the Scheme Manager and is responsible for complying with EU regulations.</p> <p>In 2016/17, Forestry Commission Scotland accrued £15.4m of EU funding. This related to grant payments made by FCS for the Forestry Grant Scheme, for which EU grant funding was to be claimed in 2017/18.</p> <p>There is a risk that:</p> <ul style="list-style-type: none"> • approved expenditure does not comply with EU regulations • FCS does not properly provide for potential disallowances • the necessary information required from the Scottish Government is not received timeously leading to an underclaim of grant. 	<p>SG internal audit carry out internal programme of checks on FGS.</p> <p>Sample checks are carried out by National office teams on FGS cases prior to approval and on FGS capital claims prior to Paying Agency authorisation & payment.</p> <p>Any potential risks of non-compliance are escalated to and discussed with the ARC.</p> <p>Where EU audits take place and potential disallowances are identified FCS will assess the likelihood of disallowance occurring and if appropriate include a provision or disclosure in the relevant annual accounts.</p> <p>The Senior Finance Manager liaises with the SGRPID finance team in order to establish clear timings for the provision of financial data between both organisations.</p>	<p>Minute reviews of joint SGRPID and FCS meetings.</p> <p>Review and reliance on grant work undertaken by Internal Audit.</p> <p>Review of year end accrual for legacy grant payments.</p> <p>Monitor progress of commitments for any potential disallowance and ensure accounting treatment is appropriate.</p>
Wider dimension risks		
<p>4 Governance and transparency</p> <p>FCS is currently in the process of significant organisational change following the review of Forestry Commission services. Major programmes include:</p> <p><u>Establishing Corporate Services Scotland:</u></p>	<p>Internal Communications Manager in post to ensure effective communication to staff.</p> <p>Corporate Services Programme Board monitors progress.</p> <p>Implementation plans are under development for</p>	<p>High level review of organisational change programmes.</p> <p>Review processes for maintaining register of interests.</p> <p>Monitor progress on testing plans for business continuity</p>

Audit Risk	Source of assurance	Planned audit work
<p>This programme is reviewing the transition of shared services from FC Central Services into FCS/FES. The plan is that all shared services should be transferred to England and Wales by the end of March 2018 although delays have been identified.</p> <p>There is a risk that any prolonged slippage in the programme could impact on service delivery, knowledge transfer and transition into the Scottish Government. There is a further risk that internal controls may not be as effective in a period of change.</p> <p><u>Forestry and Land Management (Scotland) Bill:</u></p> <p>Forestry Commission Scotland will become a division of the Scottish Government on 1 April 2019.</p> <p>The following risks are associated with this period of organisational change:</p> <ul style="list-style-type: none"> • loss of key staff and knowledge due to the uncertainty • detrimental impact on the effectiveness of internal controls in a period of change, including maintenance of the register of interests • cannot continue to provide key services alongside managing the change programme. 	<p>Finance & Digital services projects to ensure transfer of knowledge and continuity of services.</p> <p>Change Manager in post to ensure project co-ordination and effective transition.</p> <p>Progress monitored by Scottish Government Forestry Devolution Programme Board and the Forestry Commission's Scotland Executive Board.</p> <p>A new division project has been established with a project board which falls under the Scottish Government's Forestry Devolution Programme. Work streams have been established within the project which are responsible for specific areas of transition into SG.</p> <p>The project is being managed by Head of Corporate Services which ensures an oversight of resourcing issues across the project and management of ongoing business.</p> <p>Emerging issues are reported directly to FCSMB and dealt with at that level.</p>	<p>and review progress on implementing General Data Protection Regulation.</p> <p>Monitor progress of transition of Finance and Digital services.</p> <p>Review processes for maintaining FCS risk registers.</p> <p>Review cyber security arrangements.</p>

Reporting arrangements

4. Audit reporting is the main output from the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

5. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

6. We will provide an independent auditor's report to Forestry Commission Scotland and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and

recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	01 February 2018	08 February 2018
Interim Report	31 May 2018	27 July 2018
Annual Audit Report including ISA 260 requirements	23 July 2018	27 July 2018
Signed Independent Auditor's Report	30 July 2018	-

Audit fee

7. The agreed audit fee for the 2017/18 audit of Forestry Commission Scotland is £40,000 (2016/17: £40,000). In determining the audit fee we have taken account of the risk exposure of Forestry Commission Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. The proposed fee reflects the staff changes and significant organisational change. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 31 May 2018.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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.

Responsibilities

Audit Committee and Accountable Officer

9. Audited bodies have 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 successfully deliver their objectives.

10. The audit of the financial statements does not relieve management or the Audit and Risk Committee as those charged with governance, of their responsibilities.

Appointed auditor

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

13. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of FCS and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how FCS will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

14. We will give an opinion on the financial statements as to whether:

- they give a true and fair view of the financial position of the Forestry Commission Scotland and its expenditure and income
- they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the information included in the performance and accountability reports meets the requirements for their preparation and is consistent with the financial statements
- income and expenditure is regular.

Materiality

15. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

16. We calculate materiality at different levels as described below. The calculated materiality values for FCS are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the latest audited accounts for 2016/17.	£0.716 million
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 85% of planning materiality.	£0.609 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£36,000



17. We review and report on other information published with the financial statements including the performance and accountability reports which includes the governance statement and the remuneration and staff report. Any issues identified will be reported to the Audit and Risk Committee as appropriate.

Timetable

18. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	By 31 May 2018
Latest date for final clearance meeting with the FCS Head of Finance	11 July 2018
Agreement of audited unsigned financial statements	23 July 2018
Issue of draft Annual Audit Report including ISA 260 report to those charged with governance	
Independent auditor's report signed	30 July 2018
Latest date for signing of WGA return	28 September 2018

Internal audit

19. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the Scottish Government Internal Audit Department.

Adequacy of Internal Audit

20. Audit Scotland's Scottish Government audit team plans to carry out a review of the effectiveness of the internal audit function to ensure it operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. We plan to place reliance on that work.

Areas of Internal Audit reliance

21. To support our audit opinion on the financial statements, we plan to place formal reliance on Internal Audit's work on FCS Grants (including Legacy Grant Payments and controls for the new SRDP system).

Audit dimensions

22. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). In our 2016/17 Annual Audit Report, we reported on arrangements in place within FCS to support the four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

23. As part of our continued responsibility to report on the four audit dimensions, we have identified specific areas of audit work for 2017/18 and these are outlined in [Exhibit 1](#) above.

Exhibit 5

Audit dimensions



Financial sustainability

24. 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 the Forestry Commission Scotland's financial sustainability. Over the period of our audit appointment, we shall consider:

- the effectiveness of financial planning throughout the period of organisational change in identifying and addressing risks to financial sustainability
- the appropriateness and effectiveness of arrangements in place to address any potential funding gaps.

Financial management

25. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. Over the period of our audit appointment, we shall consider:

- whether FCS has arrangements in place to ensure systems of internal control are operating effectively
- whether FCS can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how FCS has assured itself that its financial capacity and skills are appropriate
- whether FCS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

26. 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. Over the period of our audit appointment, we shall consider:

- whether FCS can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

27. Value for money refers to using resources effectively and continually improving services. Over the period of our audit appointment, we shall consider whether:

- FCS can provide evidence that it is demonstrating value for money in the use of its resources
- FCS can demonstrate that there is a clear link between money spent, output and outcomes delivered
- FCS can demonstrate that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Independence and objectivity

28. Auditors appointed by the Auditor General 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 in place robust arrangements 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.

29. The engagement lead and appointed auditor for Forestry Commission Scotland is Mark Taylor, Assistant 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 Forestry Commission Scotland.

Quality control

30. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is 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.

31. 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 relevant 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

32. 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.

Adding Value

33. Through our audit work we aim to add value to FCS. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well FCS has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

Forestry Commission Scotland

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