

Forestry and Land Scotland

2019/20 Management report



 AUDIT SCOTLAND

Prepared for Forestry and Land Scotland
September 2020

Audit findings

Introduction

1. This is our first Forestry and Land Scotland Management Report following the devolution of forestry. Forestry and Land Scotland was established on 1 April 2019 as a new agency of the Scottish Government.

2. This report contains a summary of the key issues identified during the interim audit work carried out at Forestry and Land Scotland. This work included testing of the key controls within the main financial systems, in order to gain assurance over the processes and systems used in preparing the financial statements. This work was carried out in Forestry and Land Scotland offices in Edinburgh and Inverness, and during a visit to the Lochgilphead office in the west region. The results of this work will inform our approach to the 2019/20 financial statements audit, where appropriate.

3. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that Forestry and Land Scotland:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

4. We have also, under the [Code of Audit Practice](#), carried out work on the wider dimension audit. This included a review of budget monitoring processes and aspects of organisational change.

COVID-19

5. Public bodies are under exceptional pressure as they manage the impact of the pandemic and guidance and deadlines for financial reporting have been amended to reflect this. The extension of these deadlines will impact on timings for audit work and reporting.

6. Our approach to the audit will be flexible, pragmatic and consistent. Sound financial management and effective governance are more important than ever, and audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances. Our work needs to reflect the impact of COVID-19 on public services but also maintain a focus on the other key challenges facing Scotland's public sector. We continue to prioritise quality and independence.

7. We began our interim audit in early February 2020. In accordance with the developing guidance, we began to work from home from the middle of March. Staff within Forestry and Land Scotland also transitioned towards home working at that point. We sought to be pragmatic in our requests during this time and to give Forestry and Land Scotland staff time to prioritise essential non-audit work.

8. Our interim audit was necessarily extended into May 2020 as these changes to both our and Forestry and Land Scotland's day-to-day working impacted our ability to undertake our planned audit in accordance with the original approach and

timescale. As a result of this and staff absence, our audit approach for the accounts payable and accounts receivable systems has been revised and a fully substantive approach will be taken for these systems in 2019/20. We shall carry out additional substantive testing as appropriate during the financial statements audit to ensure sufficient assurance is obtained over these account areas.

9. We remained in regular dialogue with management throughout this period to discuss the interim audit and the potential impact on the year-end financial statements audit.

Work summary

10. Our 2019/20 work to date has covered the following key systems: general ledger, payroll, cash and bank, the sub-compartment database and the sales recording package. This testing covered controls including system user access, authorisation of journals, system reconciliations and payroll validation. System reviews and walkthrough testing of the accounts payable and receivable systems were also undertaken.

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

12. The contents of this report have been discussed with management to confirm factual accuracy. The co-operation and assistance we received from staff during the course of our audit is gratefully acknowledged.

Conclusion

13. A number of control weaknesses were identified from our interim audit work which are summarised in [Exhibit 1](#) below. We will consider the impact of these weaknesses and undertake additional work as appropriate in response to these findings in order to obtain sufficient assurance for our audit of the 2019/20 financial statements. Where appropriate, planned audit action to address the issues identified have been included. The management actions taken and/or proposed will further strengthen the control environment. Subject to the matters reported and resultant management action, we are content that Forestry and Land Scotland's internal controls, in the areas we examined, operated effectively during 2019/20.

14. Our 2019/20 Annual Audit Plan referred to the wider scope of public audit, required under the [Code of Audit Practice](#). During our interim audit, we carried out some preliminary work across the four audit dimensions: financial management, financial sustainability, governance and transparency and value for money. Based on the work undertaken to date, we have not identified any areas of concern which require reporting at this stage. We shall conclude and report on these areas as part of our financial statements audit.

Exhibit 1

Key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
<p>1 Sales recording package (SRP) / general ledger reconciliations</p> <p>A sample of five monthly reconciliations between SRP and the general ledger (eFinancials) were selected for review.</p> <p>Our review noted that the reconciliations are not signed and dated by the preparer or reviewer.</p> <p>It is therefore unclear whether the reconciliations are completed timeously after the period end, nor is there evidence of segregation of duties between the preparer and reviewer. Formal review and evidence of this provides management assurance that all discrepancies have been followed up and resolved.</p> <p>Risk: There is a risk that errors are not identified timeously resulting in differences between the two systems.</p> <p>Planned audit action: We will review the year end reconciliation and follow up on any reconciling items.</p>	<p>Agreed. We acknowledge there was not a physical signature and date on the reconciliations, but some mitigating controls were introduced during the latter part of the year. This has been rectified going forward and all reconciliations have a sign off sheet which is completed each month.</p>	<p>Donna Mortimer Head of Finance and Procurement Complete</p>
<p>2 eFinancials Ledger System – system user access rights</p> <p>Robust access controls are essential to ensure the integrity of financial information and segregation of duties within key financial systems.</p> <p>We tested a sample of user access rights and reviewed user profiles to gain an understanding of user access. The following points were noted:</p> <ul style="list-style-type: none"> • all users can input and authorise journals up to £1 million • all users can raise and authorise purchase orders and invoices up to £1 million • all users can raise and authorise sales invoices and credit notes up to £4 million • there is no distinction between senior management and junior staff access rights • there is no ongoing review of user access to ensure it remains appropriate. <p>We acknowledge that there are a range of mitigating controls in place including</p>	<p>FLS is in the process of identifying and implementing a new system, which will include the strengthening of these controls that have been identified here.</p> <p>There are other mitigating controls in place to reduce the risk of users inputting or authorising amounts in excess of their limits in addition to those noted by the auditor.</p> <p>Through the Scheme of Delegation limits are set based on pay band that clearly defines the financial values which staff can approve i.e. invoices and journals. This is under constant review and is part of our Assurance Framework.</p>	<p>Donna Mortimer Head of Finance and Procurement Ongoing until project completes</p>

Issue identified	Management response	Responsible officer / target date
<p>review and authorisation of paper journal vouchers, payment runs and change of supplier details together with general budgetary control.</p> <p>Access to the general ledger should be appropriate to the user's role.</p> <p>Risk: There is a risk that errors or irregularities are not detected or prevented due to inappropriate user access.</p> <p>Planned audit action: We will undertake adequate substantive testing of journals, purchase and sales invoices, and credit notes to provide sufficient assurance that they are accurate and valid.</p>		
3 Payroll – employee verification		
<p>No employee verification exercise was carried out by Forestry and Land Scotland in 2019/20 to confirm staff on the payroll actually exist.</p> <p>Management have advised that a new employee verification check will be in place from 2020/21 which will require budget holders to confirm all staff charged to their cost centres on a quarterly basis.</p> <p>Risk: Without regular confirmation of the existence of staff, there is a risk of fraud or error in that 'ghost' employees may be included in the payroll, or that leavers may not be timeously removed from the payroll.</p> <p>Planned audit action: We will increase and extend our year end payroll testing to cover the existence of employees.</p>	<p>There is a separation of process between HR and Payroll both manually and in iTrent so that the risk of 'ghost' employees being created is minimised.</p> <p>Due to the Covid outbreak, plans for budget holders to check their HR staffing records quarterly have been affected, although this will be in place from Q2 in 2020/21.</p> <p>As part of our mitigating controls, office managers have access to COGNOS reports which contains certain payroll information including name, salary, overtime for budget monitoring purposes. This allows them to review on a monthly basis, the payments for staff and identify for any incorrectly coded staff and for "ghost employees".</p> <p>Payroll is on reflection a fairly new provision of service within FLS and it has been prioritised for review by internal audit in the coming year. Any recommendations will be taken forward.</p>	<p>Rosetta Forbes Head of People & Organisational Development 30 September 2020</p>
4 Timber contracts		
<p>A sample of twelve timber contracts from the west region were selected for testing. These covered both standing sales and direct production timber. The following issues were identified:</p> <ul style="list-style-type: none"> contract header reports had not been signed nor dated prior to first despatch for three contracts 	<p>Audit findings from the interim audit will be fed back to the teams and reminders of the importance of accurate record keeping and system housekeeping sent.</p> <p>On review of the findings management are satisfied that instances of non-compliance</p>	<p>Mick Bottomley Head of Marketing and Sales 30 September 2020</p>

Issue identified	Management response	Responsible officer / target date
<ul style="list-style-type: none"> one pre-commencement checklist for a standing sales contract could not be provided one valuation had been approved in SRP by the Regional Manager in the absence of the Head of Marketing and Sales. This valuation had not been "locked down" on the system and therefore could still be edited. <p>Risk: There is a risk that inappropriate payments are made as a result of incomplete contract documentation.</p>	<p>identified are not indicative of an underlying failure of control</p>	
<hr/>		
5 Valuations – roadside sales		
<p>Valuations for standing sales are prepared by contract managers, before being approved by the Head of Marketing and Sales.</p> <p>Valuation of roadside sales of direct production timber, are prepared by the Head of Marketing and Sales. There is no independent review or approval of these valuations.</p> <p>While we recognise the experience and knowledge of the Head of Marketing and Sales, Forestry and Land Scotland should consider introducing some segregation of duties in the valuation and review/approval of roadside sales, and sharing the knowledge across the team.</p> <p>Risk: There is a risk that key skills and knowledge are lost through limited succession planning. There is also a risk that valuations are inaccurate due to the absence of segregation of duties.</p>	<p>Marketing & Sales will undertake a review of this area and look to introduce any additional segregation of duties that will improve controls in this area.</p>	<p>Mick Bottomley Head of Marketing & Sales March 2021</p>
<hr/>		
6 Timber Security – PIN checks		
<p>The Timber Security Policy provides guidance for staff on managing and assessing the risks associated with timber security. The policy requires that a certain percentage of despatches are checked. The percentage is determined by the risk assigned to the contract (standard; 1.5% - 4%, high; 5% - 10%).</p> <p>The Personal Identification Number (PIN) check report for all forest regions identified a number of instances where the minimum percentage of checks had not been met.</p> <p>We are aware that a new policy is currently in draft and was due to be effective from 1 April 2020.</p>	<p>The new policy is in place and embedded in the first quarter of the new financial year.</p> <p>Marketing & Sales will ensure that the policy is adhered to. Additional checks will be put in place to ensure that this is happening.</p>	<p>Mick Bottomley Head of Marketing and Sales Complete.</p>

Issue identified	Management response	Responsible officer / target date
<p>Risk: There is a risk that timber security arrangements are ineffective resulting in increased theft and misappropriation.</p>		
<p>7 Sub-compartment database (SCDB) – accuracy of information</p> <p>The SCDB forms the basis of information required for the valuation of biological assets and performance management information.</p> <p>Audit review of the SCDB identified the following in relation to the accuracy of information held in the SCDB:</p> <ul style="list-style-type: none"> • all changes to coupes should be updated in the SCDB within 12 weeks. Currently, this target is not formally monitored. • GIS technicians are responsible for updating the SCDB for changes to coupes for activities such as felling and re-stocking. Currently, there is no formal review or approval of the updates made by GIS technicians. We have been advised that there some mitigating controls in place including a 10% quality assurance check on the work of contractors carrying out attribute surveys, and data integrity checks built into ForesterWeb. • There are national issues with updating the information from attribute surveys into the SCDB. This relates to the update of a number of immaterial ‘slivers’ of land. <p>Risk: There is a risk that the information held in the SCDB is not up to date and accurate resulting in a misstatement of biological assets.</p>	<p>During 2019-20, the Finance Team and Planning & Environment Team put in place an assurance process to allow the Head of Environment and Planning to issue assurance to the Head of Finance & Procurement that the accuracy of data held within the SCDB which is used to prepare a valuation of the biological assets is materially accurate on a full year basis. This included that all coupe changes are updated.</p> <p>We note the matters raised and consider that the mitigating controls in place sufficiently address the matters.</p> <p>Management are comfortable that the existing and additional assurance procedures put in place allow for an accurate statement of the value of the assets.</p> <p>This additional assurance review has just completed its first full year. Finance team will undertake to review the assurance process for robustness at the half way point in 2020-21. Specific focus will be given to the monitoring consideration raised in this report.</p>	<p>Donna Mortimer Head of Finance and Procurement 30 October 2020</p>

Source: Audit Scotland

15. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Forestry and Land Scotland

2019/20 Management report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

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



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