

# Forestry and Land Scotland

2020/21 Annual Audit Plan



 AUDIT SCOTLAND

Prepared for Forestry and Land Scotland

March 2021

## 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

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Risks and planned work	4
Audit scope and timing	8

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# Risks and planned work

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1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
3. The public health crisis caused by the coronavirus (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits.
5. We published a further [update](#) on the impact of Covid-19 on public audit in January 2021, which recognised that the reintroduction of restrictions affects our capacity for audit work. It may also affect the capacity of some public bodies to prepare accounts. The well-being of everyone involved and the delivery of high-quality audits remain paramount, and we will continue to be flexible about timelines. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

## Adding value

6. We aim to add value to Forestry and Land Scotland through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help Forestry and Land Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

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

## Exhibit 1

### 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA (UK) 240 requires that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Testing of journal entries.</p> <p>Review of accounting estimates and judgements.</p> <p>Focussed testing of year-end payables and receivables.</p> <p>Substantive cut-off testing of income and expenditure transactions to ensure accounted for in the correct financial year.</p> <p>Evaluation of significant transactions outwith the normal course of business.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>As set out in ISA (UK) 240, there is a presumed risk of fraud in the recognition of income. The Financial Reporting Council's Practice Note 10 expands this to require consideration of fraud over expenditure in the public sector.</p> <p>Forestry and Land Scotland generate a significant amount of income from commercial activities, in addition to the annual subsidy received from the Scottish Government. In 2019/20, income in excess of £115 million was received from other sources and included £85 million from timber sales.</p> <p>A significant amount of non-standard, non-payroll expenditure is also incurred, given the nature of Forestry and Land Scotland's business. In 2019/20, operating expenditure was £110.5 million. Around 70% of this expenditure was incurred in relation to a range of contracts, including plant and seed supply, timber contractors and hauliers.</p> <p>The nature, extent and complexity of income and expenditure sources means that there is an inherent risk of fraud.</p>	<p>Effective budgetary control arrangements.</p> <p>Well established financial systems and effective internal controls.</p> <p>Appropriate segregation of duties in finance function.</p> <p>Effective counter fraud and whistleblowing procedures in place.</p>	<p>Review of the accounts payable and accounts receivable systems and associated key controls.</p> <p>Testing of income transactions, focussing on areas of greatest risk. This will include focussed testing of contracts for timber income.</p> <p>Testing of expenditure transactions, focussing on areas of greatest risk. This will include testing of third party contractual spend.</p> <p>Substantive cut-off testing of income and expenditure transactions to ensure accounted for in the correct financial year.</p> <p>Review of arrangements in place to detect and prevent fraud.</p>

	Audit Risk	Source of assurance	Planned audit work
3	<p><b>Accounting estimation and judgement</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of material account areas such as land and buildings (2019/20: £372 million), and biological assets and the forest estate (2019/20: £3,048 million).</p> <p>The judgements involved in the valuation of these assets represents an inherent risk of material misstatement in the financial statements.</p>	<p>Sound arrangements for the provision of valuation information.</p> <p>Use of established professional valuers.</p> <p>Robust assurance framework in place.</p>	<p>Review of the work of the professional valuer.</p> <p>Review of the process for applying the information provided by the professional valuer, including indexation where applied, and the subsequent accounting adjustments.</p> <p>Review of the appropriateness of accounting policies and how these are disclosed.</p> <p>Substantive testing of year-end balances.</p>

### Wider dimension risks

4	<p><b>Financial sustainability – longer term financial planning</b></p> <p>A significant amount of Forestry and Land Scotland's expenditure is funded by income generating activities (2019/20: £115 million). Timber income accounted for the most significant proportion of this in 2019/20 (£85 million / 74%).</p> <p>Whilst timber prices have been rising steadily in previous years, the longer-term impact of the Covid-19 pandemic and EU withdrawal on the volatility of the market and timber prices remains uncertain.</p> <p>The agency does not currently have a longer-term financial strategy. In the absence of robust longer-term financial plans, there is a risk that fluctuations in budgeted income and expenditure or Scottish Government funding cannot be effectively managed.</p>	<p>Development of longer-term financial plan.</p> <p>Ongoing work on developing business and financial sustainability.</p> <p>Effective management of cash reserves in line with agreed reserves policy.</p> <p>Effective budgetary control arrangements.</p> <p>Robust budget monitoring process in place.</p> <p>Ongoing monitoring of market conditions and the impact on timber prices.</p>	<p>Review of budgetary control arrangements.</p> <p>Monitor progress made towards developing a longer-term financial strategy.</p> <p>Consideration of the year-end cash reserve balance.</p>
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Source: Audit Scotland

## Reporting arrangements

**8.** Audit reporting is the visible output for 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](http://www.audit-scotland.gov.uk).

**9.** 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.

**10.** We will provide an independent auditor's report to Forestry and Land Scotland, Scottish Parliament and the Auditor General for Scotland setting out our opinions

on the annual report and 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 during the audit.

## Exhibit 2

### 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	28 February 2021	23 March 2021
Management Report	13 July 2021*	27 July 2021
Independent Auditor's Report	9 November 2021*	23 November 2021
Annual Audit Report	9 November 2021*	23 November 2021

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

Source: Audit Scotland

### Notional audit fee

**11.** The agreed notional audit fee for the 2020/21 audit of Forestry and Land Scotland is £99,590 (2019/20: £89,000). In determining the audit fee we have taken account of the risk exposure of Forestry and Land Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete set of working papers in advance of our financial statements audit commencing. Forestry and Land Scotland anticipate providing a complete package by 31 May 2021.

**12.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

### Responsibilities

#### Audit and Risk Committee and Accountable Officer

**13.** 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.

**14.** The audit of the annual report and accounts does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

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

**16.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. 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

## Annual report and accounts

**17.** The annual report and accounts, which include the financial statements, will be the foundation and source for most 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 Forestry and Land Scotland 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 Forestry and Land Scotland 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.

**18.** We will give an opinion on whether:

- the financial statements give a true and fair view and were properly prepared
- income and expenditure were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration report, performance report and governance statement were all consistent with the financial statements and were properly prepared in accordance with the accounts direction.



## Statutory other information in the annual report and accounts

**19.** We also review and report on the statutory other information published within the annual report and accounts including those areas covered by our audit opinion as noted above. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**20.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

**21.** 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 opinions in the independent auditor's report.

**22.** We calculate materiality at different levels as described below. The calculated materiality values for Forestry and Land Scotland are set out in [Exhibit 3](#).

## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of the total net book value of biological assets, land and the forest estate, per the 2019/20 audited annual report and accounts.	£33.9 million
<b>Performance materiality</b> – 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 60% of planning materiality.	£20.3 million
As the value of Forestry and Land Scotland's biological assets, land and the forest estate is significantly higher than other account areas, we have set a separate performance materiality level for other assets and liabilities, income and expenditure. This has been set at 75% of 2% of net expenditure before gain or loss on biological assets and will be applied to all account areas other than biological assets, land and the forest estate.	£1.0 million
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality, capped at £100,000.	£100,000

Source: 2019/20 Forestry and Land Scotland annual report and accounts; Audit Scotland.

## Timetable

**23.** To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an indicative timetable at [Exhibit 4](#). All dates will be kept under review in consultation with management.

## Exhibit 4

### Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	31 May 2021
Latest date for final clearance meeting with Head of Finance and Procurement	By 2 November 2021*
Agreement of audited unsigned financial statements	9 November 2021*
Issue of draft annual audit report including ISA 260 / 580 (proposed independent auditor's report and letter of representation) to those charged with governance	
Independent auditor's report signed	26 November 2021

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

Source: Audit Scotland

## Internal audit

**24.** Internal audit is provided by the Scottish Government Directorate for Internal Audit and Assurance. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards. ISA (UK) 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**25.** Audit Scotland's Scottish Government external audit team will carry out this review. We will place reliance on this review and will report any significant findings to management on a timely basis.

### Using the work of internal audit

**26.** International 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 to avoid duplication. We plan to consider the findings of the work of internal audit as part of our wider dimension audit responsibilities. This will include:

- best value
- assurance framework
- liability and scenario planning
- HR payroll data migration
- management and financial systems change project.

## Audit dimensions

27. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

### Exhibit 5 Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

28. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium-term (two to five years) and longer-term (longer than five years) sustainability. Over the period of our audit appointment, we shall consider:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the level of cash reserves held by Forestry and Land Scotland and how these are utilised
- whether Forestry and Land Scotland can demonstrate the affordability and effectiveness of investment decisions.

### Financial management

29. 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 arrangements are in place to ensure systems of internal control are operating effectively
- whether the effectiveness of budgetary control systems in communicating accurate and timely financial performance can be demonstrated
- how Forestry and Land Scotland has assured itself that its financial capacity and skills are appropriate

- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

### **Governance and transparency**

**30.** 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 Forestry and Land Scotland 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**

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

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

### **Best Value**

**32.** The Accountable Officer of Forestry and Land Scotland has a duty to ensure arrangements are in place to secure best value. We will consider these arrangements and report as appropriate.

**33.** Public bodies have a responsibility to ensure compliance with the Equalities Act 2010 and to advance equalities both internally and externally. We shall consider the arrangements in place at Forestry and Land Scotland and report as appropriate.

### **Independence and objectivity**

**34.** 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 also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**35.** The engagement lead (appointed auditor) for Forestry and Land Scotland is Mark Taylor, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Forestry and Land Scotland.

### **Quality control**

**36.** 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.

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

**38.** 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.

# Forestry and Land Scotland

## 2020/21 Annual Audit Plan

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](mailto:info@audit-scotland.gov.uk)

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