Grant Thornton

# Annual Audit Report for Forestry and Land Scotland

## Financial year ended 31 March 2024

Prepared for those Charged with Governance and the Auditor General for Scotland

3 September 2024

# Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular, we cannot be held responsible to you for reporting all of the risks which may affect Forestry and Land Scotland or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Executive Summary (1)

This table summarises the key findings and other matters arising from the external audit of Forestry and Land Scotland and the preparation of the financial statements for the year ended 31 March 2024 for those charged with governance (Audit and Risk Committee) and the Auditor General for Scotland.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- Forestry and Land Scotland's financial statements give a true and fair view of the financial position of the organisation at the 31 March 2024 and of the net expenditure of the organisation for the year then ended;
- Forestry and Land Scotland's financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (FReM);
- Forestry and Land Scotland's financial statements and the audited parts of the Remuneration Report and Staff Report have been prepared in accordance with the requirements of the 2023/24 Financial Reporting Manual (FReM) and directions made thereunder by the Scottish Ministers.

We are required to report whether other information published together with the audited financial statements in the Annual Report and Accounts is consistent with the financial statements and has been prepared in accordance with the requirements.

We are required to express an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of Forestry and Land Scotland and the financial statement we have audited.

### Draft financial statements

The draft financial statements were presented for audit on the 7 June 2024, which were presented on the date agreed, with supporting working papers. The achievement of that deadline meant the accounts were available to audit two weeks ahead of the timelines achieved in 2022/23 and recognises the timely closedown. We have been supported by Forestry and Land Scotland's officers during the audit process with effective working relationships and commitment to the audit process.

Whilst recognising the compilation of the accounts and the proposed audit sign off are significantly earlier than in 2022/23, there are areas for improvement for future years, as additional audit resource was required, and additional audit fee is sought.

Since the prior year, there have been significant improvement to working papers however, there are still opportunities for improvement to ensure underlying working papers are available which support the balances in the accounts. These should tie-back to the trial balance, which in turn ties to the unaudited accounts. Additionally, changes in versions of accounts and the trial balance should be suitably tracked, to support the accounts process. This resulted in increased work by the audit team and additional lines of enquiry being required with the finance team.

Additionally, the time taken for the return of some sample items was often outside of expected time ranges and where multiple pieces of evidence were requested, only one element would be provided. Our audit requests involve information requests outside of finance, having all Forestry and Land departments with the same commitment to the audit timeline will aid response times in future years.

# Executive Summary (2)

## Financial Statements (continued)

### Target completion dates

The target completion dates for the 2023/24 was 30 August 2024. Whilst the planned Committee is three months earlier than in 2022/23, the target timeline has not been achieved due to a rearranged Committee, with this Auditor's Annual Report planned to be presented to the Audit and Risk Committee on 3 September 2024, as this was the earliest date which could be scheduled due to availability.

### Misstatements and recommendations

Our audit work was substantially completed during June and July 2024. Our findings are summarised on pages 7 to 29. There were no adjusted misstatements required to the primary financial statements processed during the course of the audit. Appendix 1 notes where Forestry and Land officers have amended or not amended the financial statements for items suggested during the audit. The decision to not amend does not impact upon the audit opinion.

We identified potential misstatements during the audit from our testing. Management have decided not to adjust the financial statements as they are not material, and these are referred to as unadjusted misstatements. Further detail is in Appendix 1 and will be added as an appendix to the Letter of Representation.

The significant unadjusted misstatements are summarised below:

- £9.171 million variance identified between the valuers report and amounts disclosed within the financial statements relating to forest estate and land. This has resulted in an understatement of forest estate and land.
- an expenditure cut-off error, where certain transactions relating to 2023/24 had not been accrued for totalling £0.290 million and
- due to additional information being provided after the year-end date, to update an estimate, an adjustment to reduce accrued income totalling £0.743 million.

Further detail is set out within Appendix 1 including disclosure adjustments.

We have raised four financial statement recommendations for management as a result of our audit work on the financial statements. These are set out within Appendix 2.

Our follow up of the eleven recommendations made as part of our 2022/23 audit are detailed in Appendix 4. Progress towards these recommendations are as follows:

- Six recommendations remain ongoing.
- Five recommendations have been closed.

**We have issued an unqualified opinion on 3 September 2024.**

# Executive Summary (3)

## Financial Statements (continued)

### Journals authorisation processes

Our work on journals in the prior year, identified that Forestry and Land Scotland does not have journal authorisation processes within the general ledger, and processes are more informal. There is a reliance upon reactive controls, whereas proactive controls would enhance the ability to reduce the risk of fraud or error from the opportunity to override management controls. This has not changed during the 2023/24 year, and our work on journals therefore, had a higher risk category resulting in a larger number of journals being tested. A recommendation on journal authorisation processes is noted at Appendix 4 **and remains ongoing**. We noted in prior year, if the authorisation processes remained the same in future years, we would be required to perform testing in a higher risk category that would lead to some additional cost.

### Biological Assets and Forest Estate & Land

In 2023/24, there is a new valuer, and in order to understand the valuation method utilised and to challenge management and the valuers where there were material movements in parts of the valuation compared to 2022/23, a specialist valuer as an auditor's expert had to be engaged. The cost over the expected usual challenge forms part of the additional audit fee.

### Audit fee

Due to the issues outlined in the Executive Summary, including additional audit responses and assurances required from valuation experts, this led to extra time required by the organisation to work through the revised set of financial statements, and further time for the audit team in identifying all the issues, and to audit the amended version of the financial statements This is set out in more detail in Appendix 5 .

As a result of the issues noted within the executive summary, additional audit resource was required in the weeks of 12 and 19 August.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff in completing the external audit.

# Executive Summary (4)

## Wider Scope

### Wider Scope

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code requires auditors to consider Forestry and Land Scotland's arrangements in respect of financial management, financial sustainability, vision leadership and governance and use of resources to improve outcomes.

In our External Audit Plan for the year ended 31 March 2024, we documented our assessment of the wider scope risks and planned audit work. At the planning stage, we identified one significant risk in respect of financial sustainability.

We outline our work undertaken in response to the arrangements in place and the risk identified and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Further details of the work undertaken are outlined on pages 31 to 46.

We have raised four recommendations for management as a result of our audit work on wider scope. These are set out in Appendix 3 and a comprehensive management response has been added to each recommendation.

We raised five recommendation as part of our prior year audit on wider scope. The follow-up of these recommendations are set out in Appendix 4. Of the five recommendations raised, one has been superseded by further recommendations in 2023/24, two are ongoing and two have been completed.

There remains a significant risk in respect of financial sustainability given the financial challenges that Forestry and Land Scotland faces over the long-term.

# Introduction

## Scope of our audit work

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to Forestry and Land Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

This Annual Audit Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit and Risk Committee on 3 September 2024.

As auditor, we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Responsibilities

Forestry and Land Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts in accordance with proper accounting practices. Forestry and Land Scotland is also responsible for compliance with legislation, and establishing arrangements over governance, propriety and regularity that enable it to successfully deliver its objectives.

Our responsibilities as independent auditors, appointed by Audit Scotland, are set out in the Code, supplementary guidance, and International Standards on Auditing in the UK.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve officers from their responsibility to address the issues raised and to maintain an adequate system of control.

## Audit approach

Our audit approach was based on a thorough understanding of the organisation's business and is risk based, and in particular included:

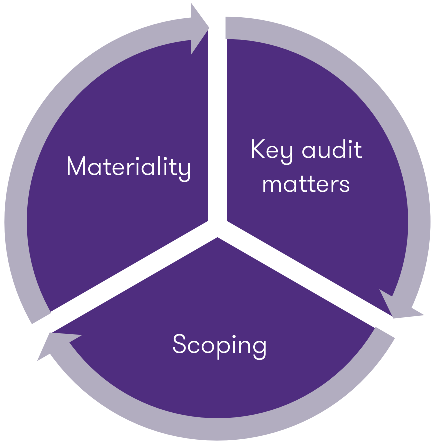
- an evaluation of the internal control environment, including its IT systems and controls and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

## Adding value through our audit work

We aim to add value to Forestry and Land Scotland throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward-looking recommendations where we identify areas for improvement and encourage good practice around financial management and financial sustainability, risk management and performance monitoring. In doing so, we aim to help Forestry and Land Scotland promote improved standards of governance, better management and decision-making and more effective use of resources.

# Audit of the annual report and accounts

## Our approach to the audit of the financial statements




### Overall materiality

**£94.716 million which represents 1.7% of the organisation's total assets.**

This has decreased from the Audit Plan value by £6.304 million due to the update of the materiality based upon the actual values within the 2023/24 draft financial statements.

A lower materiality of £3.555 million which represents 1.7% of gross expenditure was set for the revenue accounts, debtors, creditors and cash.

### Key audit matters

The key audit matters were identified as:

- valuation of biological assets
- valuation of forest estate and land

The significant risks were identified as:

- management override of controls (ISA (UK) 240)
- risk of fraud in revenue recognition (ISA (UK) 240)

## Internal control environment

In accordance with ISA requirements, we have developed an understanding of Forestry and Land Scotland's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. In accordance with ISAs, over those areas of significant risk of material misstatement we consider the design of controls in place.

However, we do not place reliance on the design of controls when undertaking our substantive testing. We identified no material weaknesses from this work which would have caused us to alter the planned approach as documented in our plan.

## Recap of our audit approach and key changes in our audit strategy

There have been no changes in our approach since our Audit Plan was presented to you on 11 March 2024.

# Status of Audit Work

Our audit team and the finance team continue to work together to complete the audit. We have a tracker of outstanding items and capture these matters where the finance team need to respond to our follow-up queries and the audit work, we have yet to complete.

**We have completed our external audit for 2023/24 and we have issued an unmodified opinion on 3 September 2024.**

Audit quality is important to us, and it is important as auditors that we take a step back to consider all our audit evidence and the quality of our audit work on file on completion.  This includes sufficient documentation of our key auditor judgements and conclusions.

# Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our audit approach was set out in our Audit Plan.

- We reviewed and updated our assessment of materiality from planning based upon your 2023/24 draft financial statements and concluded that materiality is £94.716 million (PY: £71.306 million) representing 1.7% (PY: 1.2%) of Forestry and Land Scotland's total assets.
- Performance materiality was set at £66.301 million (PY: £41.784 million), representing 70% (PY: 60%) of our calculated materiality.
- We report to Officers (Management) any differences identified over £4.736 million (PY: £0.250 million).
- We applied a lower materiality threshold for the following areas:

  - Revenue account, debtors, creditors and cash: we have set a lower materiality of £3.555 million (PY: £2.885 million) which is 1.7% (PY: 1.5%) of gross expenditure based on the 2023/24 financial statements. Performance materiality of £2.489 million (PY: £1.731 million) is based on 70% (PY: 60%) of the lower materiality. For these areas, we report to officers for any differences over £0.178 million (PY: £0.144 million).

  - Remuneration and Staff Report: disclosures within the Remuneration Report to Senior Officer and Board Member Remuneration Tables due to the sensitive nature of this disclosure, the lower materiality applied to this area was £0.025 million (PY: £0.025 million). We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We evaluate errors in the remuneration report for both quantitative and qualitative factors against this lower level of materiality. We have applied heightened auditor focus on the completeness and clarity of disclosures in this area and have requested amendments to be made if any errors exceed the threshold, we have set out would alter the bandings reported for any individual.

There is a change in materiality values since our final audit plan was communicated to you on 11 March 2024 as total assets for 2023/24 was used as the basis of the calculation when we received the financial statements on 7 June 2024. The percentage chosen for headline materiality, performance materiality and triviality remains unchanged.

# Detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Forestry and Land Scotland and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2023/24 HM Treasury Financial Reporting Manual (FReM).
- We enquired of Senior Officers and the Audit and Risk Committee, concerning Forestry and Land Scotland's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of Forestry and Land Scotland's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We have reviewed the principal risks to journal entries that could alter Forestry and Land Scotland's financial performance for the year and potential management bias in determining accounting estimates in relation to the valuation of biological assets and forest estate and land. Our audit procedures in relation are documented within our response to the significant risk of management override of controls below.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in certain account balances and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - Forestry and Land Scotland's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - Forestry and Land Scotland's control environment, including the policies and procedures implemented by Forestry and Land Scotland to ensure compliance with the requirements of the financial reporting framework.

We have been receiving regular updates during the course of the audit from Forestry and Land Scotland and there are no issues that impact our opinion.

# Overview of audit risks

The table below summarises the key audit matters, significant and other risks discussed in more detail on the subsequent pages.

| Risk title | Risk level | Change in risk since Audit Plan | Fraud risk | Key audit matter | Level of judgement or estimation uncertainty | Testing approach | Status of work to date |
|---|---|---|---|---|---|---|---|
| Valuation of biological assets | Significant | ↔ | ✗ | ✓ | High | Substantive | ● Green |
| Valuation of forest estate and land | Significant | ↔ | ✗ | ✓ | High | Substantive | ● Green |
| Management override of controls | Significant | ↔ | ✓ | ✗ | Low | Substantive | ● Green |
| Risk of fraud in revenue | Significant | ↔ | ✓ | ✗ | Medium | Substantive | ● Green |

↑ Assessed risk increase since Audit Plan
↔ Assessed risk consistent with Audit Plan
↓ Assessed risk decrease since Audit Plan

Green - Not considered likely to result in material adjustment or change to disclosures within the financial statements
Amber - Potential to result in material adjustment or significant change to disclosures within the financial statements
Red - Likely to result in material adjustment or significant change to disclosures within the financial statements

# Significant risks and Key Audit Matters (1)

### Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the External Audit Plan.

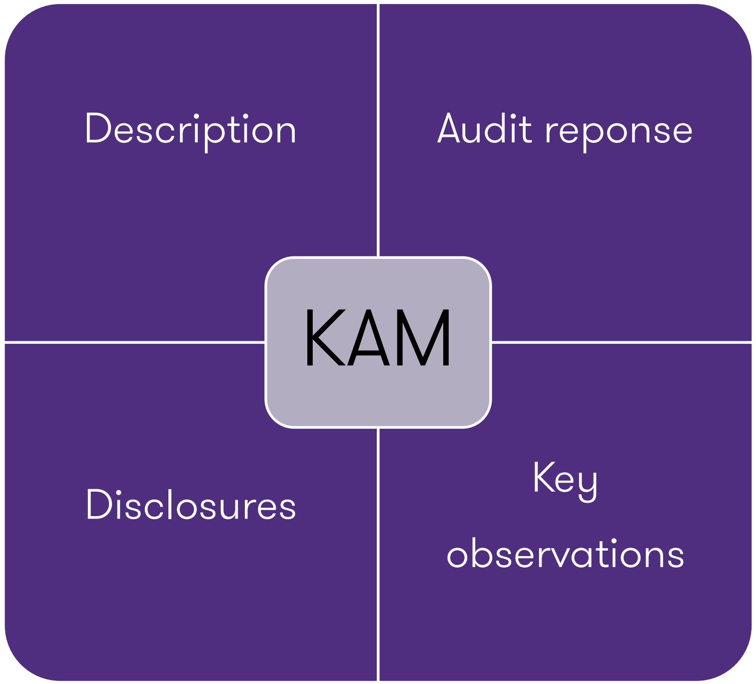
### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Company's financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

These matters included those that had the greatest effect on:

- the overall audit strategy and
- the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.




### Other risks

Other risks are, in the auditor's judgment, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.

# Significant risks and Key Audit Matters (2)

| Key Audit Matter identified in our Audit Plan | How our scope addressed the matter – |
|---|---|
| **Risk 1: Valuation of biological assets**<br><br>In accordance with the HM Treasury Financial Reporting Manual (FReM), timber growing on Forest Estate Land is categorised as Biological Asset Timber or Other Timber depending on the strategic objective the land is held to meet. Trees growing on land that is primarily held in support of the Scottish Government's objective of making a positive contribution to a thriving and sustainable Scottish economy are classed as Biological Assets under IAS 41. Other trees are classed as Other Timber and are out-with the scope of IAS 41. Biological Assets include standing trees and are measured at fair value less estimated point-of-sale costs. Holdings of plants and seed are also accounted for by Forestry and Land Scotland as Biological Assets under IAS 41. They are stated at fair value less estimated point of sale costs.<br><br>Forestry and Land Scotland appointed BNP Parabas Real Estate and Property Management UK Limited as external valuer under a contract commencing 1 May 2023 for a period of three years to undertake an annual valuation of the Forest Estate including biological assets which comprises of timber and plant and seed. As at 31 March 2023, Forestry and Land Scotland held biological assets of £3.303 billion and at 31 March 2024, this has decreased to £3.106 billion. Given the significant value of the biological assets held by Forestry and Land Scotland and the level of complexity and judgement involved in the estimation process, there is an inherent risk of material misstatement in the year end valuation of these assets.<br><br>The valuation of biological assets is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. We therefore focussed our audit attention on assets that have large and unusual changes in valuations compared to last year and / or unusual approaches to their valuations, as a significant risk requiring special audit consideration and a key audit matter. | In responding to the key audit matter, we performed the following audit procedures:<br>• evaluated management's processes and controls for the calculation of the valuation estimates, the instructions issued to their valuer and the scope of their work<br>• evaluated the valuer's report to identify assets that had large and unusual changes and/or approaches to the valuation and tested these valuations substantively for reasonableness<br>• challenged the key data and assumptions used by management's experts in the valuation process for these assets;<br>• assessed and recalculated the biological assets split<br>• evaluated the assumptions made by management for any assets not revalued during the year and how management had satisfied themselves that these valuers were not materially different to fair value<br>• reviewed your impairment assessment as to whether there are indicators of impairment and<br>• engaged our own valuations expert to assess the instructions issued by Forestry and Land Scotland to their valuers, the final valuers' report and the assumptions used that underpin the final valuations. Additionally, our external expert carried out additional work understanding the variances compared to the previous year appreciating that two different valuers had been used.<br><br>**Our results**<br><br>Our work has not identified any issues in relation to the valuation of biological assets. |

# Significant risks and Key Audit Matters (3)

**Key Audit Matter identified in our Audit Plan**

### Risk 2: Valuation of forest estate and land

In accordance with the HM Treasury Financial Reporting Manual (FReM), subsequent to initial recognition, Forestry and Land Scotland is required to hold property, plant and equipment on a valuation basis. The valuation basis used will depend on the nature and use of the assets. Specialised land, buildings, equipment, installations and fittings are held at depreciated replacement costs and non-specialised forest estate, land and buildings, such as offices, are held at fair value.

Forestry and Land Scotland appointed BNP Parabas Real Estate and Property Management UK Limited as external valuer under a contract commencing 1 May 2023 for a period of three years to undertake an annual valuation of the Forest Estate including non-forest land, houses and other buildings. Professional valuations of other land-related assets such as windfarms, hydro schemes, leased mineral sites and telecom masts are undertaken by BNP Parabas, Johnson Poole & Bloomer, Wardell Armstrong LLP and Galbraith.

As at 31 March 2023, Forestry and Land Scotland held property, plant and equipment (PPE) of £2.503 billion including forest estate and land of £2.452 billion. As at 31 March 2024, this had decreased to £2.332 billion including forest estate and land of £2.270 billion. Given the significant value of the forest estate and land held by Forestry and Land Scotland and the level of complexity and judgement involved in the estimation process, there is an inherent risk of material misstatement in the year end valuation of some of these assets.

The valuation of forest estate and land is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. We therefore focused our audit attention on assets that have large and unusual changes in valuations compared to last year and / or unusual approaches to their valuations, as a significant risk requiring special audit consideration and a key audit matter.

**How our scope addressed the matter –**

In responding to the key audit matter, we performed the following audit procedures:

- evaluated management's processes and controls for the calculation of the valuation estimates, the instructions issued to their valuer and the scope of their work
- evaluated the valuer's report to identify assets that had large and unusual changes and/or approaches to the valuation and tested these valuations substantively for reasonableness
- challenged the key data and assumptions used by management's experts in the valuation process for these assets
- tested a selection of other land revaluations made during the year to ensure they had been input accurately into the organisation's asset register, and the revaluations had been correctly reflected in the financial statements;
- evaluated the assumptions made by management for any assets not revalued during the year and how management had satisfied themselves that these valuers were not materially different to current value
- reviewed your impairment assessment as to whether there are indicators of impairment and
- engaged our own valuations expert to assess the instructions issued by Forestry and Land Scotland to their valuers, the final valuers' report and the assumptions used that underpin the final valuations. Additionally, our external expert carried out additional work understanding the variances compared to the previous year appreciating that two different valuers had been used.

### Our results

Our work on the valuation of forest estate and land identified one issue:

- There was a variance of £9.171 million identified between the figures disclosed within the Statement of Financial Position and the valuers report.

Forestry and Land Scotland has opted not to adjust for the issue identified as the difference is not material and we have recorded this as unadjusted misstatements in Appendix 1.

A recommendation on review of valuers' report was raised as part of our prior year audit and has been followed up on within Appendix 4.

# Significant risks and Key Audit Matters (4)

| Other significant risks identified in our Audit Plan | Commentary |
|---|---|
| **Risk 3: Management override of controls**<br><br>As set out in ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity's internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions. | In response to the risk highlighted in the audit plan, we carried out the following work:<br>• Documented our understanding of and evaluated the design effectiveness of management's key controls over journals<br>• Analysed your full journal listing for the year and use this to determine our criteria for selecting high risk journals<br>• Tested the high-risk journals we have identified<br>• Gained an understanding of the critical judgements applied by management in the preparation of the financial statements and considered their reasonableness<br>• Gained an understanding of the key accounting estimates made by management and carried out substantive testing on in scope estimates and<br>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br><br>**Our results**<br><br>Our work on journals identified that Forestry and Land Scotland does not have journal authorisation processes within the general ledger, and processes are more informal. There is a reliance upon reactive controls, whereas proactive controls would enhance the ability to reduce the risk of fraud or error from the opportunity to override management controls. To mitigate the risks identified to the control environment being assessed as higher risk, our work on journals has required additional testing to be undertaken which has required extra time during the audit.<br><br>From our testing, we noted several occasions whereby the journal name has not been updated and did not relate to the journal being posted as the journal form name had not been updated. Additionally, from review of journals posted in year, it was noted that Forestry and Land Scotland have 384 users who have the ability to post journals.<br><br>A recommendation on journal authorisation and users was noted in our prior year audit and follow up of this recommendation has been undertaken at Appendix 4.<br><br>From our testing completed, we haven't found any evidence of management override of controls and have no further issues to report. |

# Significant risks and Key Audit Matters (5)

| Other significant risks identified in our Audit Plan | Commentary |
|---|---|
| **Risk 4: The revenue cycle includes fraudulent transactions**<br><br>As set out in ISA (UK) 240 (Revised May 2021), there is a presumed risk that revenue may be misstated due to improper recognition of revenue in all entities.<br><br>The risk of management manipulation and fraud is deemed to be low in relation to forest production and maintenance, environment and heritage income, management services income and government grant income. We have therefore rebutted the risk of fraud in revenue in relation to these income streams.<br><br>However, Forestry and Land Scotland continues to face significant external pressure to deliver planned budgets and minimise any overspends. Forestry and Land Scotland's budget indicates that it will recognise sales of timber income in 2023/24 which we deem to be material to the financial statements. We have therefore identified the risk of fraud in revenue in relation to other income. | Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Forestry and Land Scotland, we have carried out the following work:<br><br>• Evaluated your accounting policy for recognition of expenditure for appropriateness and compliance with the FReM<br>• Performed detailed testing of revenue transactions at and around year-end to verify the accounting period transactions relate to and confirm that transactions have been recognised in the correct accounting period<br>• Reviewed post year end receipt and verified the accounting period these transactions related to and confirmed they have been correctly accounted for in the correct period and<br>• Reviewed the judgements and estimates made by management when recognising prepayments and accrued income at year end within the financial statements and where appropriate challenged management accordingly.<br><br>**Our results**<br><br>Our work has identified one issue:<br><br>• Due to information received post year-end to update an estimate, this resulted in income being over accrued for by £0.743 million.<br><br>Forestry and Land Scotland has opted not to adjust for the issue identified as this is not material and we have recorded as an unadjusted misstatements in Appendix 1.<br><br>A recommendation on the review of accrued income and the timeliness of billing in relation wind and hydro income has been noted at Appendix 2. |

# Significant risks and Key Audit Matters (6)

| Other significant risks identified in our Audit Plan | Commentary |
|---|---|
| **Risk of fraud in expenditure recognition (Practice Note 10) – Rebutted**<br><br>As set out in practice note 10 (Revised 2022) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.<br><br>Forestry and Land Scotland's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such, we believe there is less opportunity for a material misstatement as a result of fraud to occur in this area.<br><br>Having considered the risk factors and the nature of the expenditure streams at Forestry and Land Scotland, we have determined that the risk of fraud in expenditure can be rebutted as the organisation has a sufficient reserves balance to utilise against and opportunities to manipulate expenditure recognition are deemed to be limited. | In response to the risk highlighted in the audit plan we carried out the following work:<br><br>• Evaluated your accounting policy for recognition of expenditure for appropriateness and compliance with the FReM<br>• Performed detail testing of expenditure transactions at and around year-end to verify the accounting period transactions relate to and confirm that transactions have been recognised in the correct accounting period<br>• Reviewed the judgements and estimates made by management when recognising accruals and provisions at year end within the financial statements and where appropriate challenge management accordingly and<br>• Our testing included a specific focus on year-end cut-off arrangements, including consideration of the existence of accruals in relation to non-payroll expenditure.<br><br>**Our results**<br><br>Our work noted an error in relation to expenditure cut-off where invoices received post year-end relating to 2023/24 expenditure had not been accrued for. On further investigation, it was noted that this was not an isolated error and had arisen due to the manual process, whereby in line with the closedown process, after a certain date in April individuals are responsible for notifying the finance team where accruals are required. We were able to pinpoint this error to certain individuals within the team and additional testing was required to be completed, with the total resulting error being £0.290 million.<br><br>Forestry and Land Scotland have opted not to adjust for the error identified and we have recorded this as an unadjusted misstatements in Appendix 1.<br><br>A recommendation on the review of transactions around year-end to ensure correct cut-off was raised as part of our 2022/23 audit and has been followed up on at Appendix 4. |

# Financial Statements – key judgements and estimates (1)

As required in Forestry and Land Scotland's Accounting Polices note, officers outline critical judgements in applying accounting policies and in addition, assumptions about the future and other sources of estimation uncertainty. In particular, where estimates and judgements are identified, these should be quantified.

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Assessment

● [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated

● [Orange] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

● [Yellow] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

● [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Financial Statements – key judgements and estimates (2)

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Property, Plant and Equipment: depreciation including useful economic lives (UELs).<br>£2.332 billion<br><br>Note 6 Property, Plant and Equipment | As reported in Note 1.9 the organisation's approach to depreciation is:<br>Land (forest estate and non-forest land) is not depreciated.<br>Assets under construction are not depreciated until the asset is capable of operating in the manner intended by management.<br>Depreciation is provided on all other property, plant and equipment at rates calculated to write off the cost or valuation, less estimated residual values, of each asset evenly over its expected useful life.<br>An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.<br>Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the Statement of Comprehensive Net Expenditure.<br>When revalued assets are sold, the amounts included in the revaluation reserve are transferred to the general fund.<br>No depreciation is charged on non-current assets held for resale. | We examined the estimate, considering the:<br>• appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate.<br><br>Conclusion<br>We were satisfied with the methodology for the calculation of the depreciation charge. | We consider management's process is appropriate and key assumptions are neither optimistic or cautious. |

# Financial Statements – key judgements and estimates (3)

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Accruals and Deferred Income<br>Current - £38.614 million<br>Non-Current - £2.042 million<br>Note 17 Trade and Other Payables | Forestry and Land Scotland accrues for expenditure to ensure that all expenditure that is incurred during the financial year, but has not yet been billed, invoiced or paid for, is recorded in the year to which it relates. Forestry and Land Scotland has two main types of accruals:<br>**Manual accruals**<br>These largely consist of non-purchase order-based accruals. Examples include the holiday and flexi pay accruals and amounts arising from contractor payments via the Sales Recoding Package system. These are often created on best available information.<br>**PO accruals**<br>These are purchase order-based accruals which are automatically made.<br><br>Forestry and Land Scotland also defers income whereby the money has been received for goods or services, which has not yet been earned. This typical relates to grant funding received by the organisation. | We have performed over a sample of accruals including the holiday pay accrual and deferred income.<br>**Conclusion**<br>As part of our expenditure completeness testing, we have identified several items which should have been manually accrued for, however, this did not occur.<br>This has resulted in an unadjusted misstatement totalling £0.290 million. Please refer to Appendix 1. | We consider management's process is appropriate and key assumptions are neither optimistic or cautious. |

# Financial Statements – key judgements and estimates (4)

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Prepayments and Accrued Income<br><br>Current - £12.530 million<br><br>Note 14 Trade and Other Receivables | Forestry and Land Scotland also accrues for income whereby the money has been earned but has not yet been received. There are two main types:<br><br>**Manual accruals**<br><br>These are largely based on non-purchase order-based accruals with examples including the wind and hydro accruals. The amount receivable comprises a base rent, together with a share of the revenue arising from the sale of generated electricity (revenue rent).<br><br>While there is certainty over the value of the base rent, the remaining income is linked to the electricity generated, and the price at which it was sold to the market. Revenue rents are received in arrears and as a result of the variable factors, the amount due to be received is not certain until after the financial year end. In calculating any accrual for revenue rent, it is necessary to estimate both the quantity and price of power generated.<br><br>**Invoice accruals**<br><br>These are accruals which are based on invoices which have yet to be dispatched from the Sales Recording Package which have limited estimation as based upon actuals.<br><br>Forestry and Land Scotland also records prepayments with regards to amounts paid for by a business in advance of the goods or services being received. These are based on actuals and there is limited estimation. | We have performed testing over a sample of accrued income including manual accruals such as wind and hydro accruals.<br><br>**Conclusion**<br><br>As part of our accrued income testing, we have identified several items where information has been received post-year and results in a variance between the estimate and actuals.<br><br>This has resulted in an unadjusted misstatement totalling £0.743 million. Please refer to Appendix 1.<br><br>We have also raised an audit recommendation within Appendix 2. | We consider management's process is appropriate and key assumptions are neither optimistic or cautious. |

# Other key elements of the financial statements (1)

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts:

| Issue | Commentary |
|---|---|
| Matters in relation to fraud and irregularity | It is Forestry and Land Scotland's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from officers and those charged with governance regarding Forestry and Land Scotland's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year.<br>We have been receiving regular updates from Forestry and Land Scotland throughout the financial year however, there are no further reporting implications. |
| Accounting practices | We have evaluated the appropriateness of Forestry and Land Scotland's accounting policies, accounting estimates and financial statement disclosures. We have identified disclosure adjustments required to the financial statements which have been detailed in Appendix 1. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed in the final version of the accounts. |
| Matters in relation to laws and regulations | We have been receiving regular updates and Forestry and Land Scotland during the course of the audit and there are no issues arising that impact our audit opinion. |
| Other information | We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>We have identified a number of minor amendments required to be made to the annual report to ensure it is consistent with the financial statements. The draft accounts did not include details of the Executive pension disclosures due to a hold up in the calculation of CETV across the public sector. Subsequent guidance was issued to bodies that a narrative disclosure could be included within the 2023/24 accounts in absence of the figures and the Remuneration and Staff Report has been updated to reflect. |

# Other key elements of the financial statements (2)

| Issue | Commentary |
|---|---|
| Governance statement | We are required to report on whether the information given in the Governance Statement is consistent with the financial statements and prepared in accordance with the requirements of the Financial Reporting Manual (FReM). We identified enhancements to be made to the governance statement including enhancement to be made to the internal audit section to reflect their reports during the financial year. |
| Matters on which we report by exception | We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters. |
| Opinion on other aspects of the annual report and accounts | We are required to given an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been properly in accordance with the requirements of the Financial Reporting Manual (FReM), and directions there under. We have identified minor changes to the disclosures, which are reported fully in Appendix 1. |
| Regularity | The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance Accountability (Scotland) Act 2000. In our opinion in all material aspects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. |
| Written representations | A letter of representation has been requested from Forestry and Land Scotland as required by auditing standards. This can be found as a separate item to this report. The final letter of representation for signing will include specific representations around infrastructure assets and revenue generating land assets. We request specific representation around significant judgements and both of these areas were included in the 2022/2023 Letter of Representation. |

# Other key elements of the financial statements (3)

| Issue | Commentary |
|---|---|
| Going concern | In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2022). The Financial Reporting Board recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.<br><br>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Company meets this criteria, and so we have applied the continued provision of service approach.<br><br>In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management's (senior officer's) assessment of the appropriateness of the going concern basis of accounting and conclude that:<br>• a material uncertainty related to going concern has not been identified<br>• management's (senior officer's) use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |
| National Fraud Initiative | The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including Forestry and Land Scotland, receive matches for investigation.<br><br>In March 2024, we were required to submit an NFI questionnaire to Audit Scotland, which RAG rated the organisations' NFI arrangements. For Forestry and Land Scotland, we provided a green recommendation noting that NFI is an explicit part of the organisation's counter fraud arrangement and there has been a commitment to the exercise with appropriate personnel been thoroughly involved in the process. Of the 799 matches identified, all matches have been resolved with no cases of fraud being identified from the matching exercise performed. |

# Other key elements of the financial statements (4)

| Issue | Commentary |
|---|---|
| WGA return | For Forestry and Land Scotland, we are required to complete Whole of Government Accounts (WGA) work and provide an assurance statement on the organisation's WGA return as mandated by National Audit Office. We will complete the relevant specified procedures and prepare and submit a partial assurance statement once Forestry and Land Scotland send in their WGA return. The due date for central government bodies is to be informed however, the deadline is after the Audit and Risk Committee and work will be undertaken later in the year and we will liaise with officers when the guidance is fully published. |
| Other returns to Audit Scotland | In accordance with the Audit Scotland Planning Guidance, as appointed auditors, we have prepared and submitted Fraud Returns and have contributed to shared intelligence for sector meetings and Technical Guidance Notes. There is nothing we need to bring to your attention in this respect. |

# Other findings – Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas

| IT application | Level of assessment performed | Overall ITGC rating | ITGC control area rating | | | Related significant risks/other risks |
|---|---|---|---|---|---|---|
| | | | Security management | Technology acquisition, development and maintenance | Technology infrastructure | |
| E-Financials | ITGC assessment (design and implementation effectiveness only) | ● Green | ● Green | ● Green | ● Green | All significant risks |
| Sales Recording Package | ITGC assessment (design and implementation effectiveness only) | ● Green | ● Green | ● Green | ● Green | Fraud in Revenue Recognition |
| Land Valuation Database | ITGC assessment (design and implementation effectiveness only) | ● Green | ● Green | ● Green | ● Green | Valuation of Biological Assets and Forest Estate & Land |
| Sub Compartment Database | ITGC assessment (design and implementation effectiveness only) | ● Green | ● Green | ● Green | ● Green | Valuation of Biological Assets and Forest Estate & Land |

**Assessment**

- ● Red - Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Amber - Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● Green - IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Grey - Not in scope for testing

# Other findings – other matters (1)

| Other matter | Commentary | Conclusion |
|---|---|---|
| Revenue Generating Land Assets | On review of the valuation report, it was identified that the entity's land consists of a number of land assets which are revenue generating. We have challenged management over the classification of property, plant and equipment in the financial statements:<br><br>Investment property is property (land or building – or part of a building - or both) held (by the owner or by the lessee as a right of use asset) to earn rentals or for capital appreciation or both rather than for<br><br>(a) Use in the production or supply of goods or services or for administrative purposes; or<br><br>(b) Sale in the ordinary course of business<br><br>Management have noted that land is not held for long term capital appreciation, and this is reflected in the comments below i.e. the land acquired that has no useful purpose is disposed of (point 1) and the organisation are changing the use of the land where there is a more profitable alternative use (point 2) therefore, these other land assets should be classified as property, plant and equipment.<br><br>1. Schemes are built on land already owned by Forestry and Land Scotland and if land is not acquired with the intent of setting up a renewables scheme. The land would have been acquired for forestry or peatland restoration purposes or it was attached to other land that the organisation wanted and had no useful purpose for at the time. If the land had no useful purpose, it would normally be sold as soon as possible.<br><br>2. Sites for wind farms are most often on sites used for commercial forestry (or just peatland) and a decision has been taken that the organisation can make more income from a change of use. | We are satisfied with management's assessment that these land assets are classified as property, plant and equipment within the financial statements. |

# Other findings – other matters (2)

| Other matter | Commentary | Conclusion |
|---|---|---|
| Infrastructure Assets | Infrastructure assets are inalienable assets, expenditure on which is only recoverable by continued use of the asset created. For Forestry and Land Scotland, infrastructure assets include roads, forest tracks and other similar type assets. We have challenged management over their accounting treatment for infrastructure assets.<br><br>Management have noted that to maximise the environmental, social and economic benefits of the National Forests and Land, Other Land, Biological Asset, Timber and Other Timber, Forestry and Land Scotland improves and develops access and services by adding to the infrastructure on its sites. Infrastructure includes new roads however, these usually amount to rubble and not typical tarmac roads which are created to allow Forestry and Land Scotland to deforest, fell and remove the timber. As such, any expenditure on temporary forest tracks are charged to revenue expenditure as they occur. The existence of these temporary/short life forest tracks does not enhance the value of the estate. | We are satisfied with management's assessment of infrastructure assets within the financial statements. |

# Wider scope conclusions

# Wider scope conclusions (1)

This section of our report documents our conclusions from audit work on the wider scope areas set out in the Code. We take a risk-based audit approach to wider scope work. Within our audit plan we identified one significant wider scope risk in relation to financial sustainability.

As part of our ongoing audit planning audit work during the year we have not identified any additional wider scope audit risks.

| Wider Scope Area | Our risk considerations and focus | Risk Identified | | Wider Scope Conclusion |
|---|---|---|---|---|
| Financial Management | The arrangements in place at Forestry and Land Scotland to ensure sound financial management, accountability and the arrangements to prevent and detect fraud, error and other irregularities | No | G | Forestry Land and Scotland have appropriate financial management arrangements in place. In 2023/24, Forestry Land and Scotland reported a deficit of £25.9 million. This deficit was funded via the grant received from the Scottish Government, which totalled £25.5 million and the use of general reserves of £0.400 million. |
| Financial Sustainability | The projected financial position of Forestry and Land Scotland in the medium to longer term and the relevance and appropriateness of assumptions applied to financial plans that will allow the council to effectively deliver services in the future | Yes | R | Forestry Land and Scotland do not prepare longer-term financial plans which makes it difficult to assess the financial sustainability of the organisation over the longer term. Forestry Land and Scotland should develop a medium to longer term financial strategy supported by shorter term detailed financial and savings plans. Forestry and Land Scotland has introduced a Transformation Programme Framework to improve the effectiveness of the delivery of Forestry and Land Scotland's key priorities and outputs. The Framework sets out what transformative changes the organisation needs to make, how it will make these changes over time, who will drive that change and when. |

G Appropriate arrangements are in place, minor improvement recommendations made

A Appropriate arrangements are in place, improvement recommendations made

R Significant risk identified

# Wider scope conclusions (2)

This section of our report documents our conclusions from audit work on the wider scope areas set out in the Code. We take a risk-based audit approach to wider scope work. Within our audit plan we identified one significant wider scope risk in relation to financial sustainability.

As part of our ongoing audit planning audit work during the year we have not identified any additional wider scope audit risks.

| Wider Scope Area | Our risk considerations and focus | Risk Identified | | Wider Scope Conclusion |
|---|---|---|---|---|
| Vision, Leadership and Governance | The effectiveness of Forestry Land and Scotland's governance arrangements and the arrangements in place to deliver the vision, strategy and priorities set by the council | No | A | Forestry and Land Scotland received a limited assurance audit from their internal auditors for the second year. This is a governance issue that management need to address in future years. The new Chief Executive has been in post since April 2024 and is taking the opportunity to revise the governance model. |
| Use of Resources to Improve Outcomes | How Forestry Land and Scotland demonstrates economy, efficiency and effectiveness through its use of financial and other resources | No | G | Forestry Land and Scotland have a Corporate Plan 2022-2025 which set the priorities over the medium term. Key Performance Indicators have been agreed and progress towards their achievement is monitored by the Executive Leadership Team. |

G Appropriate arrangements are in place, minor improvement recommendations made

A Appropriate arrangements are in place, improvement recommendations made

R Significant risk identified

# Wider scope audit – Financial Management (1)

| Wider scope dimension | Wider scope audit response and findings | Conclusion |
|---|---|---|
| **Financial Management**<br><br>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. | **Forestry and Land Scotland's Financial Management Arrangements**<br>The financial performance monitoring process is reported to Forestry and Land Scotland's Management Board at each monthly meeting as an integral part of the budget monitoring process.<br><br>Variances from budget are clearly explained within the finance reports, with actions identified to resolve any adverse variances. This provides senior management and members with the opportunity to review, challenge and scrutinise financial performance. All budgetary and financial information submitted to board members is produced by the Finance Team within Forestry and Land Scotland and reviewed by the Chief Finance Officer for technical accuracy. The finance team within Forestry and Land Scotland have access to real time information through the finance ledger systems to provide accurate and timely financial monitoring reports.<br><br>Forestry and Land Scotland has a range of policies and procedures designed to ensure compliance with laws and regulations including for example the Framework Document, Delegated Limits of Financial Authority and Whistleblowing strategy. The Framework Document was revised alongside the Scottish Government in July 2023.<br><br>**Finance Team**<br>Individuals involved in the preparation and reporting of financial information are qualified and experienced and held finance positions at the organisation for a number of years. However, the finance team is relatively small, and if staff shortages or sickness arise, the organisation could face significant capacity issues. | Our review of financial reports during the year did not identify any significant issues.<br><br>Financial policies and procedures have been reviewed and we are satisfied the financial regulations are comprehensive, current and promoted within the body.<br><br>We have not identified any issues regarding the skills and capability of finance staff within the organisation. Given the size of the organisation, should staff shortages arise, the finance team may face capacity issues. |

# Wider scope audit – Financial Management (2)

| Wider scope dimension | Wider scope audit response and findings | Conclusion |
|---|---|---|
| Financial Management (continued) | **Financial Performance**<br>Forestry and Land Scotland are required to deliver a balanced budget each year and fall under the remit of the Scottish Government budget, which was laid before Parliament in December 2022. For 2023/24, the original budgeted grant to be received from Scottish Government was £23.8 million. The final grant received totalled £25.5 million.<br><br>Forestry and Land Scotland's outturn for 2023/24 is shown in the table below: | Forestry Land and Scotland should provide additional detail on financial performance in year and how the final outturn compared to budget.<br>An action plan recommendation has been raised in Appendix 3. |

| | Budget (£m) | Actual (£m) |
|---|---|---|
| Managed expenditure | £148.7 | £154.3 |
| Operating income | (£120.5) | (£118.2) |
| Deficit | £28.2 | £36.1 |
| Strategic Acquisitions Programme Expenditure | £14.3 | 13.7 |
| Strategic Acquisitions Programme Income | (£7.8) | (23.9) |
| Net Deficit | £34.7 | £25.9 |
| Scottish Government Grant Funding | (£25.5) | (£25.5) |
| Use of general reserves | (£0.4) | (£0.4) |

Forestry and Land Scotland had budgeted in 2023/24 for a net deficit of £28.2 million. The actual position for the year was an overall net deficit of £36.1 million. After consideration of the Strategic Acquisitions Programme in 2023/24, Forestry and Land Scotland has reported a deficit of £25.9 million. This deficit is funded via the grant received from the Scottish Government, which totalled £25.5 million and the use of general reserves of £0.400 million.

# Wider scope audit – Financial Management (3)

| Wider scope dimension | Wider scope audit response and findings | Conclusion |
| --- | --- | --- |
| Financial Management (continued) | **Financial reporting in the Annual Report and Accounts**<br>The Annual Report and Accounts provides detail on the funding and financial outturn as part of the Performance Analysis section. This includes detail over the grant funding received from the Scottish Government, the operational and trading income generated and total operational and trading expenditure. However, there is no section in the Annual Report and Accounts which provides a succinct overview of Forestry Land and Scotland's overall performance against budget. Inclusion of this information would provide greater clarity on Forestry Land and Scotland's performance in year and also provide a mechanism to include details behind overspend/underspends in year. | The Annual Report and Accounts does not contain a succinct overview of Forestry Land and Scotland's overall performance against budget. Forestry and Land Scotland should look to introduce such an overview in future years to provide greater clarity over their financial performance during the year.<br><br>An action plan recommendation has been raised in Appendix 3. |

# Wider scope audit - Financial Sustainability (1)

| Significant risk identified | Response to significant risk | Conclusion on significant risk |
|---|---|---|
| For 2023/24, the original budget, as set out within the Scottish Budget was £23.8 million. Due to Forestry and Land Scotland's ability to build up cash reserves and due to wider budget pressures across the public sector in Scotland in 2023/24, Forestry and Land Scotland's Annual Subsidy budget was reduced in year by £6.0 million to a final budget of £17.8 million. For 2023/24, Forestry and Land Scotland had forecasted a budget deficit of £28.1 million that will be funded through the use of reserves and this forecast is heavily reliant on achieving the forecasted timber income.<br><br>For 2024/25, the Scottish Budget was laid before the Scottish Parliament in December 2023 and indicated that the Annual Subsidy Limit for Forestry and Land Scotland would be £27.8 million.<br><br>Forestry and Land Scotland do not have formalised medium to long-term financial plans. Without forward looking plans, the financial sustainability of the organisation is difficult to forecast and the use of key assumptions, scenario planning, sensitivity analysis and risk analysis is more difficult to evidence. Forestry and Land Scotland undertook a review into business sustainability alongside an external consultant in February 2024. They are currently working on their approach to transformation with plans underway.<br><br>Significant risk identified:<br>• We have identified a significant risk in relation Forestry and Land Scotland's financial sustainability from our initial planning work in relation to future financial plans for 2024/25 and beyond. | • We sought to understand the future financial forecasts and plans for Forestry and Land Scotland for 2024/25 and beyond, including key assumptions used, scenario planning, sensitivity analysis, risk analysis and the extent of any budget pressures and impact upon reserves.<br>• We consider the action Forestry and Land Scotland is taking to address identified funding gaps and associated savings plans. | Forestry and Land Scotland are subject to one-year budgets from Scottish Government. With increasing inflationary pressures and reduced funding, the organisation are faced with difficult decisions and challenges, which fundamentally, require longer term financial action through transformation. As such, a risk remains for financial sustainability.<br><br>Forestry and Land Scotland do not have any formal longer-term financial plans which makes it difficult to assess the financial sustainability of the organisation over the longer term.<br><br>Forestry and Land Scotland should develop a medium-term financial strategy supported by shorter term detailed financial and savings plans. |

# Wider scope audit - Financial Sustainability (2)

| Wider scope dimension | Wider scope audit response and findings | Conclusion |
|---|---|---|
| **Financial Sustainability**<br>Financial sustainability looks forward to the medium to longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered | **Budgeting**<br>Forestry and Land Scotland is funded primarily through the income which it generates from its operating activities however, the organisation also receive annual funding from the Scottish Government.<br><br>Forestry and Land Scotland undertake an annual budget process which forms part of the wider annual business plan process. This includes discussions taking place between the leadership team and Scottish Government regarding funding requirements.<br><br>The Forestry and Land Scotland budget is set within the Scottish Budget, which sets out the Scottish Government's proposed spending and tax plans and is laid before the Scottish Parliament on an annual basis in December. For 2024/25, the Scottish Budget was laid before the Scottish Parliament in December 2023 and indicated that the budget for Forestry and Land Scotland would be £27.8 million.<br><br>The Forestry and Land Scotland budget for 2024/25 includes estimated direct income of £126.9 million and estimated other income from Scottish Government funded programmes of £25.8 million (total income £152.7 million). Total expenditure in 2024/25 is estimated to be £175.2 million meaning the Forestry and Land Scotland annual budget for 2024/25 is facing a deficit of £22.5 million. This deficit will be met by utilising existing reserves balances.<br><br>**Medium Term Financial Planning**<br>Forestry and Land Scotland are yet to implement formalised longer-term financial planning.  They have prepared a budget for 2024/25 and as part of that, have prepared scenario planning for 2025/26, which projects income and expenditure in 2025/26 using some key assumptions. | We have not identified any issues regarding the budgeting arrangements in place at Forestry and Land Scotland. We consider these arrangements to be effective and appropriate. |

# Wider scope audit - Financial Sustainability (3)

| Wider scope dimension | Wider scope audit response and findings | Conclusion |
|---|---|---|
| Financial Sustainability (continued) | **Medium Term Financial Planning (continued)**<br>The scenario planning uses the 2023/24 year-end position and forecasts the future reserves balances. The 2023/24 accounts confirm that Forestry and Land Scotland held £79.2 million of cash balances that transfer as reserves at year end 2023/24. The reserve are split as follows:<br>- Restricted with a specific purpose – £38 million (2022-23: £40 million).<br>- Earmarked reserves in 2023-24 and beyond – £27 million (2022-23: £43 million).<br>- Liquidity reserves – £14 million (2022-23: £13 million).<br><br>The liquidity reserve are funds that enable the agency to manage the risks it faces from trading and timber price and fluctuations in demand. The reserves service any unexpected need for funds, such as covering unforeseen day to day operational costs, a shortfall in income or to fulfil its obligations, legal or otherwise.<br><br>In order to manage projected deficits over the period, Forestry and Land Scotland's intention is to utilise £33.6 million of reserves in 2024/25, and a further £5.9 million of reserves in 2025/26. This results in a projected cash balance of £39.1 million as at 31st March 2026. The reserves are projected to be split as follows:<br>• Restricted - £15.4 million<br>• Earmarked - £9.25 million<br>• Liquidity - £14.5 million<br><br>Provided no further funding is made available over the next two years, cash reserves will fall significantly by year-end 2025/26. The continual use of reserves to manage planned deficits is not an effective way to manage in-year overspends and Forestry and Land Scotland will need to produce alternative approaches to manage the position into the longer-term. We do note that all plans for the use of reserves during the year are regularly reported to the Executive Leadership team. | Reducing the underlying overspend in future years will be challenging and use of reserves is being relied on however, this does not address the fundamental challenge Forestry and Land Scotland has in delivering future balanced budgets.<br><br>The continued reliance on reserves is not sustainable. To achieve financial sustainability and reduce reliance on useable reserves to bridge funding gaps, Forestry and Land Scotland will need to identify and deliver significant savings and transformation to reduce funding gaps and continue to deliver key services. There is a risk that where savings and transformation plans are not delivered, in the short to medium term this could provide financial sustainability challenges for the organisation.<br><br>An action plan recommendation has been raised in Appendix 3. |

# Wider scope audit - Financial Sustainability (4)

| Wider scope dimension | Wider scope audit response and findings | Conclusion |
|---|---|---|
| Financial Sustainability (continued) | **Transformation Programme**<br>The Executive Leadership Team has established a Transformation Programme Framework to improve the effectiveness of the delivery of Forestry and Land Scotland's key priorities and outputs. The Framework sets out what transformative changes the organisation needs to make, how it will make these changes over time, who will drive that change and when.<br><br>The Transformation Programme also has an overarching aim to develop an operationally and financially sustainable business model which will help secure operations in future years. Although primarily focused on improving financial performance, Forestry and Land Scotland also intend to use the Transformation Programme to help identify options which will improve productivity, which will help deliver key operational outputs.<br><br>The Transformation Programme will be a process of continuous improvement, exploring new sources of income, external benchmarking and profitability analysis. The implementation of 'leading' KPIs and scorecard measurements is already taking place, giving the senior team earlier access to information and tools to improve the timeliness of decision making.<br><br>Forestry and Land Scotland's primary financial objective is to align its operational expenses with its revenue streams, thereby eliminating the need to use existing reserve balance. The Transformation Programme is pivotal in advancing Forestry Land and Scotland towards this goal, and in the future, eliminating the need to use existing reserves balances to fund the deficit each year. | Forestry Land and Scotland must use the Transformation Programme to identify new approaches of working and develop a financially sustainable business model over the longer-term.<br><br>The Transformation Programme will be required to identify efficiencies which will assist in bridging the significant deficits over the short-term. There will need to be an increase in pace of change to avoid the use of significant levels of reserves in future years.<br><br>An action plan recommendation has been raised in Appendix 3. |

# Wider scope audit – Vision, Leadership and Governance (1)

| Wider scope dimension | Wider scope audit response and findings | Conclusion |
|---|---|---|
| **Vision, Leadership and Governance**<br><br>Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. | **Committee Structure**<br>Forestry and Land Scotland, as an executive agency of the Scottish Government, is accountable to the Scottish Parliament and Scottish Ministers. Forestry and Land Scotland's Framework Document sets out the relationship with the Scottish Government alongside the accountability structures, administrative and financial arrangements. The revised Framework Document was published in August 2023 following agreement with the Scottish Government.<br><br>The Strategic Advisory Board comprises of the executive directors, non-executive advisers and where appropriate, other temporary external experts. The Board's role is to provide a scrutiny and challenge function on strategic development, organisational performance and progress made across identified agreed strategic thematic areas. During the year, the Board met four times.<br><br>Forestry and Land Scotland have introduced an Executive Leadership Team (ELT) during 2024. The remit of the ELT is to collectively lead on the Forestry and Land Scotland vision, strategy, performance and organisational health and meets every two weeks throughout the year. The ELT replaced the Management Board which disbanded in March 2024. The Management Board supported the Chief Executive with the day-to-day running of Forestry and Land Scotland. This will now be the role of the ELT<br><br>The Audit and Risk Committee comprises the non-executive advisers and provides advice and constructive challenge to the CEO, in particular in relation to their responsibilities for issues of risk management, governance, and associated assurance to support year-end accountability and reporting. The Audit and Risk Committee met four times during the year. | Our review of attendance of members at Committee meetings has not flagged any issues.<br><br>We are satisfied that the governance arrangements are appropriate with members of the Management Board are responsible for supporting the Chief Executive in order to make robust and well-informed decisions.<br><br>We conclude that the Audit and Risk Committee effectively challenge and scrutinise reports presented and ensure effective decision making.<br><br>Forestry and Land Scotland published minutes of each Committee online, to ensure transparency of decision making. |

# Wider scope audit – Vision, Leadership and Governance (2)

| Wider scope dimension | Wider scope audit response and findings | Conclusion |
|---|---|---|
| Vision, Leadership and Governance (continued) | **Committee Structure (continued)**<br>In April 2024, Kevin Quinlan joined Forestry and Land Scotland as Chief Executive Officer, following the retirement of Simon Hodgson. The new Chief Executive is taking the opportunity to revise the governance model, introducing the streamlined Executive Leadership Team, which has replaced the outgoing Management Board.<br><br>**Committee Self-Evaluation**<br>Part of the remit of the ARC is to assess its own capability and performance. In response to the recommendation made in our 2022/23 Annual Audit Report, the members of the Audit & Risk Committee were asked by the Chairman to reflect on and evaluate the performance of the ARC during 2024.<br><br>The results of the self-evaluation exercise were presented to the ARC in June 2024. The results have been discussed with the Secretariat to inform the further development of the ARC and its effectiveness in supporting the Accountable Officer and Chief Executive.<br><br>The Chairman's overall assessment of the ARC was that "it is a sufficiently effective forum to support the Chief Executive and Accountable Officer in the delivery of a transparent and accountable organisation which is still in transition, recognising that Forestry and Land Scotland and the ARC continue to develop and strengthen their processes and work in support of Forestry and Land Scotland achieving its vision and its mission."<br><br>**Governance Statement**<br>The Governance Statement details the composition and governance structure of Forestry and Land Scotland and how that supports the achievement of the organisation's priority themes. From review of the Statement, we are satisfied that it reflects the findings from audit, scrutiny and inspection. | From review of the Corporate Governance Statement, we are satisfied that it reflects the key findings from audit, scrutiny and inspection. Minor changes were made to the statement to provide clarification around significant risks and this has been carried to Appendix 1.<br><br>The members of the ARC have carried out a self-evaluation exercise and concluded that the ARC is an effective forum to support the Chief Executive and Accountable Officer |

# Wider scope audit – Vision, Leadership and Governance (3)

| Wider scope dimension | Wider scope audit response and findings | Conclusion |
|---|---|---|
| Vision, Leadership and Governance (continued) | **Risk Management**<br>Forestry and Land Scotland maintains a corporate risk register which is derived from the high-level risks of the organisation, along with corporate risks within the organisation. Risks are evaluated by considering their probability of occurring along with their potential to impact on the outcomes expected of Forestry and Land Scotland, the organisation's operations and its stakeholders. The risks and management's mitigating actions are reviewed by the Audit and Risk Committee and Management Board at every meeting.<br>At March 2024, of the eighteen risks on the register, fifteen were rated as red, two were amber and one yellow, with the highest rated risk around the failure to manage long-term financial sustainability leading to potential delivery failure and excessive programme backlogs.<br><br>**Internal audit**<br>Internal audit activity is undertaken by the Scottish Government's Internal Audit Directorate. Internal audit undertook six internal audits reviews during the financial year covering:<br>• Programme of Works – Substantial Assurance<br>• Payroll – Reasonable Assurance<br>• Governance – Limited Assurance<br>• Health and Safety: Civil Engineering – Limited Assurance<br>• Procurement– Limited Assurance<br>• Business Sustainability – Insufficient Assurance<br>This resulted in an overall assurance opinion for the 2023/24 financial year of limited assurance. The internal audit opinion notes that "*there are weaknesses in the current risk, governance and/or control procedures that either do, or could, affect the delivery of any related objectives. Exposure to the weakness identified is moderate and being mitigated*". | We are satisfied that the key risks have been identified and that the pace of improvement is appropriate to the risks and challenges facing Forestry and Land Scotland.<br><br>Forestry and Land Scotland have an effective internal audit function in place to assist with assurance over governance framework, risk and internal controls. |

# Wider scope audit – Vision, Leadership and Governance (4)

| Wider scope dimension | Wider scope audit response and findings | Conclusion |
|---|---|---|
| Vision, Leadership and Governance (continued) | **Internal audit**<br>This is the second year that Forestry and Land Scotland have received a limited assurance opinion from their internal auditors. This is a governance issue that management need to address going forward into future years.<br><br>**Internal controls**<br>The Audit and Risk Committee receive quarterly audit progress reports from internal audit which outline the work undertaken in each quarter alongside any follow up audits and the results of the audits.  Alongside this, management prepare an Audit Recommendations and Actions Progress Update which includes the relevant director assessment of action progress against recommendations and overall RAG rating. This provides Audit and Risk Committee members the opportunity to gain assurance that internal controls are operating as expected.<br>From our review of internal audit reports and Audit and Risk Committee reports, we have not identified any evidence of significant gaps in the assurance obtained by the Committee in relation to the work programme undertaken.<br>Progress towards the implementation of both internal and external audit recommendations is monitored by the Audit and Risk Committee. A report is presented to the Committee, detailing progress made on implementing the action and the current status. We noted from the follow up reports provided at the Audit and Risk Committee on the 10 June 2024, that there are thirty-six open actions which Forestry Land and Scotland are working on addressing and of these, twenty-four are past their original implementation date. | For the second year, Forestry and Land Scotland received a limited assurance audit from their internal auditors. This is a governance issue, and one which management need to address in future years.<br><br>An action plan recommendation has been raised in Appendix 3.<br><br>Our review of internal audit reporting noted that the Audit and Risk Committee are regularly updated on internal audit activity and recommendations are actioned on a timely basis. Management should seek to implement recommendations on a timely basis.<br><br>An action plan recommendation has been raised in Appendix 3. |

# Wider scope audit – Use of Resources to Improve Outcomes (1)

| Wider scope dimension | Wider scope audit response and findings | Conclusion |
|---|---|---|
| Use of Resources to Improve Outcomes<br><br>Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes. | **Corporate plan and performance reporting**<br>Forestry and Land Scotland's corporate plan covers the period 2022 to 2025 and is supported by an annual business plan which provides more detail on the steps Forestry and Land Scotland will be taking to make progress towards their strategic objectives annually.<br><br>A performance report is published quarterly which outlines Forestry and Land Scotland's performance against its KPIs which allows the organisation to track, measure and manage performance and progress against their Corporate Outcomes. This allows management to identify areas of concern and where action plans require implementation. Forestry and Land Scotland also help deliver across all eleven National Outcomes as set out in the National Performance Framework.<br><br>On review of the 2023/24 performance report, of the fifteen KPIs, ten were showing as green and five were showing as red (target not be met). The five KPIs rated red were:<br>1. Total area of peatland with initial restoration action (ha).<br>2. Percentage of notified features on designated site or favourable (or unfavourable recovering) condition<br>3. Percentage of women in senior roles<br>4. Staff engagement: percentage of employees who would recommend Forestry and Land Scotland as a great place to work<br>5. Percentage of stage 1 complaints responded to within statutory timescales<br><br>As part of the performance reports, a detailed action plan is developed and monitored on a quarterly basis to ensure progression and to identify areas/opportunities for improvement. | From review of the corporate plan, and subsequent monitoring we conclude the plan is clear and the focus on defining and measuring outcomes is defined.<br><br>We have obtained assurance that appropriate performance monitoring and reporting arrangements are in place at the organisation, and where indicators are worsening, Forestry and Land Scotland then agree upon actions that need to be taken to improve performance. |

# Wider scope audit – Use of Resources to Improve Outcomes (2)

| Wider scope dimension | Wider scope audit response and findings | Conclusion |
|---|---|---|
| Use of Resources to Improve Outcomes (continued) | **Workforce Planning**<br>There is a current approach to workforce planning within the five Regional Teams, involving analysing limited workforce data and discussions with Regional Managers. Activities are also ongoing to create a system for vacancy management.<br>Following discussion and agreement by the Senior Management team, materials for the revised approach to workforce planning have been developed and it is expected that the new approach will be launched in late September/early October 2024 by the HR Business Partner and the Advisory team.  Workforce planning will be at 'meso level' within each of the Regions and National teams and will be carried out every six months, the process will include succession planning. Forestry Land and Scotland will also be developing procedures and policies to support these processes.  It is also intended to develop an organisational level workforce plan; however this will be developed following the completion of the programme of transformational change. | Forestry and Land Scotland should seek to implement the organisational workforce plan in a timely manner following the completion of the programme of transformation change.<br><br>An action plan recommendation has been raised in Appendix 3. |

# Best Value

The Scottish Public Finance Manual explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.  There is ministerial guidance to ensure that arrangements are in place to secure Best Value in public services.

There are seven Best Value characteristics set out within the Manual, and they were reviewed as part of our risk assessment.

Audit Scotland require us as auditors to undertake work on the Fairness and Equality characteristic at least once during our audit appointment and we have undertaken this review during our 2023/24 audit. The following was noted from the work carried out:

- Forestry and Land Scotland have issued Equality Mainstreaming Reports which looks back on the organisations recent progress on equality, diversity and inclusion. The most recent report (covering 2021-2023) was published on the 31 March 2023.
- Forestry and Land Scotland have agreed new Equality Outcomes for the period 2023-2027 and intend to create action plans which will detail the focus of the outcomes over the period.

Best Value work under the new Code of Audit Practice is fully integrated within the annual audit work performed by appointed auditors and their teams. As part of our integrated wider-scope annual audit work, we as appointed auditors use a risk-based approach to assess and report whether the company has made proper arrangements for securing Best Value.

# Appendices

# 1. Audit Adjustments (1)

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Impact of adjusted misstatements

There have been no adjusted misstatements processed during the 2023/24 audit.

# 1. Audit Adjustments (2)

## Impact of unadjusted misstatements

The table below provides details of all non-trivial errors which we identified during the course of our 2023/24 audit which management decided not to amend within the final set of financial statements. The unadjusted misstatements will be included in the Letter of Representation and were identified by the audit team.

| Detail | Statement of Comprehensive Net Expenditure £'000 | Statement of Financial Position £'000 | Statement of Changes in Taxpayers' Equity £'000 |
|---|---|---|---|
| **Revaluation of Forest Estate and Land** | | | |
| Dr Forest Estate and Land | - | 9,171 | |
| Cr Revaluation Reserve | | | 9,171 |
| *Being the recognition of the variance to the valuers report for forest estate and land.* | | | |
| **Accrued Income** | | | |
| Dr Income | 743 | | 743 |
| Cr Accrued Income | | (743) | |
| *Being the adjustment to correctly record accrued income up to the date of signing the financial statements following the receipt of additional information.* | | | |

# 1. Audit Adjustments (2)

Impact of unadjusted misstatements (continued)

| Detail | Statement of Comprehensive Net Expenditure £'000 | Statement of Financial Position £'000 | Statement of Changes in Taxpayers' Equity £'000 |
|---|---|---|---|
| Completeness of Expenditure | | | |
| Dr Expenditure | 290 | | 290 |
| Cr Accrued Expenditure | | (290) | |
| *Being the adjustment to correctly record accruals which have not being recorded at the year-end.* | | | |
| **Overall impact** | **1,033** | **8,138** | **10,204** |

# 1. Audit Adjustments (4)

## Impact of unadjusted misstatements in the prior year

The table below provides details of all non-trivial errors which we identified during the course of our 2022/23 audit which management decided not to amend within the final set of financial statements. These are not relevant to consider in 2023/24 as there is a new valuation each year and the lease error calculation has been fixed.

| Detail | Statement of Comprehensive Net Expenditure £'000 | Statement of Financial Position £'000 | Statement of Changes in Taxpayers' Equity £'000 |
|---|---|---|---|
| Revaluation of Forest Estate and Land | | | |
| Dr Revaluation Reserve | - | | 26,910 |
| Cr Forest Estate and Land | | 26,910 | |
| *Being the recognition of the error in forest estate and land arising from the transpositional error within the valuer's report.* | | | |
| Revaluation of Other Minor Land | | | |
| Dr Revaluation Reserve | - | | 830 |
| Cr Other Minor Land | | 830 | |
| *Being the recognition of the error in other minor land arising from the utilisation of prior year land areas.* | | | |
| Lease Liabilities | | | |
| Dr Right of Use Asset | - | 181 | - |
| Cr Trade and Other Payables – Lease Liability | | (181) | |
| *Being the increase in the lease liability arising due to error in the aging analysis.* | | | |
| **Overall impact** | **-** | **27,740** | **27,740** |

# 1. Audit Adjustments (5)

## Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.  This is not a complete list, as this does not include minor changes requested by the audit team, including typos and formatting requests.

This list of misclassification and disclosure changes reflects presentational adjustments to the financial statements which have no impact on Forestry and Land Scotland's reported financial position.

| Disclosure | Auditor findings | Adjusted? |
|---|---|---|
| Review of Annual Report and Accounts (General) | We identified minor casting errors and formatting issues as part of our review of the Annual Report and Accounts. These were raised and processed by management where necessary and do not require separate reporting. | Yes |
| Other Information | We have identified minor amendments required to be made to the annual report to ensure it is consistent with the financial statements. These have been amended by management and do not require any separate reporting. | Yes |
| Performance Report | The performance report does not sit within the two prescribed sections (performance overview and performance analysis). The contents need to be moved around in the report under these headings. This includes providing a short summary explaining the purpose of the overview and analysis sections. | Yes |
| Governance Statement | Further disclosures/enhancements could be made to the Governance Statement including additional information around the internal audit report and annual opinion issued for the 2023/24 financial year. | No |
| Parliamentary Accountability Report | Disclosures within the Parliamentary Accountability Report as detailed in section 6.7.1. of the FReM were not clearly labelled as audited. Additionally, there was no regularity of expenditure disclosure. | Yes |

# 1. Audit Adjustments (6)

## Misclassification and disclosure changes (continued)

| Disclosure | Auditor findings | Adjusted? |
|---|---|---|
| Remuneration and Staff Report | We identified the following issues within the Remuneration and Staff Report which has been subsequently updated:<br>**Single Figures of Remuneration:**<br>Query outstanding in relation to the banding of 5 individuals – TBC.<br>Bonuses have not been disclosed in bandings, but rather figures (to the nearest thousand).<br>**Pension Disclosures:**<br>As per 6.5.15 of the FReM, entities must disclose the pension entitlements for each minister and director in the format proposed by the Cabinet Office, in the Employer Pension Notice. Where data is not available in a timely manner for directors and waiting for it to be finalised could risk causing a delay to the planned laying of accounts, entities do not need to disclose pension entitlements and the following narrative must be disclosed instead. Due to the delay in receiving the pension information, Forestry and Land Scotland has added the narrative below to the Annual Report and Accounts.<br>"Accrued pension benefits for directors are not included in this table for 2023/24 due an exceptional delay in the calculation of these figures following the application of the public service pension remedy."<br>**Fair Pay Disclosures:**<br>The fair pay disclosure did not disclose the figures for each of Y25, Y50 and Y75 for both total pay and benefits and the salary component of total pay and benefits. The ratios had been incorrectly calculated and had to be updated in line with the FReM requirements.<br>Additionally, explanations for the variances in pay ratios between the current and prior years and what the changes are attributable to. | Yes |
| Primary Statements and Underlying Notes | The signage in the primary statements and relevant notes within the accounts have been updated to show expenditure/losses in parenthesis and income/profit with no parenthesis. | Yes |

# 1. Audit Adjustments (7)

## Misclassification and disclosure changes (continued)

| Disclosure | Auditor findings | Adjusted? |
|---|---|---|
| Remuneration and Staff Report | We identified the following issues within the Remuneration and Staff Report which has been subsequently updated:<br>**Exit Packages:**<br>The exit packages disclosed within the FReM were not in the bandings required as set out within the FReM.<br>**Consultancy and Contingent Labour Figures:**<br>There was no supporting narrative to explain the consultancy and contingent labour figures provided within the accounts. | Yes |
| Statement of Cash Flows | The Statement of Cash Flows was updated to move the right of use asset lease expenses and interest from cash flows from operating activities to cash flows from investing activities. | Yes |
| Note 1 – Accounting Policies | The following amendments were made to the accounting policies:<br>• Additional disclosures have been added to the IFRS Issued Not Yet Effective disclosure to provide detail around the specific standards which have been issued but not yet effective including the details of implementation dates and impact on the financial statements.<br>There is opportunities to enhance the disclosures in the following areas to ensure full compliance with the FReM:<br>• Lessee Disclosures (in line with IFRS 16)<br>• Pension Disclosures (in line with IAS 19) | Partly |

# 1. Audit Adjustments (8)

## Misclassification and disclosure changes (continued)

| Disclosure | Auditor findings | Adjusted? |
|---|---|---|
| Note 2 – Critical Accounting Estimates and Judgements | International Financial Reporting standards prescribe the required disclosures in relation to critical judgements. It also requires separate consideration of accounting estimates.<br>Significant estimates relate to assumptions and estimate at 31 March that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Judgements relates to areas that aren't significant estimates.<br>The critical judgements disclosed are not judgements within the requirements of IFRS 1. The judgements required to be disclosed are those apart from judgements involving estimations and additional disclosures are required.<br>The disclosures of estimation uncertainty included in note 2.2 do not meet the disclosure requirements of IAS 1 and have not been updated. An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:<br>(a) their nature, and<br>(b) their carrying amount as at the end of the reporting period.<br>Examples of other disclosures helpful to the user of the accounts include<br>- the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;<br>- the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and<br>- an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved. | Partly |

# 1. Audit Adjustments (9)

## Misclassification and disclosure changes (continued)

| Disclosure | Auditor findings | Adjusted? |
|---|---|---|
| Note 3 – Net Operating Expenditure | The following issues were identified within the note which have been subsequently updated:<br>• The 'auditors' remuneration – audit work' line was updated from £0.141 million to £0.126 million. | Yes |
| Note 5 – Segmental Reporting | The following issues were identified within the note which have been subsequently updated:<br>• Additional disclosures were included to note that the revenues from external customers for each product and service and the geographical areas is not readily available and the cost to develop it would be excessive. | Yes |
| Note 7 – Property, Plant and Equipment | The split of the value per land use within Note 7 has not been updated for the trivial variances identified between the land use types. | No |
| Note 11 – Financial Instruments | The following issues were identified within the note which has been subsequently updated:<br>• The Trade and Other Payables balance was updated from £17.603 million to £15.271 million in line with Note 17 to remove elements which are not financial instruments due to being statutory payables e.g taxation and social security costs, holiday pay accrual and flexi pay accrual.<br>• The prior year Trade and Other Payables figure for 2022/23 was updated to remove other taxation and social security costs and holiday and flexi pay balances. This resulted in a movement from £12.138 million to £10.277 million. | Yes |

# 1. Audit Adjustments (10)

## Misclassification and disclosure changes (continued)

| Disclosure | Auditor findings | Adjusted? |
|---|---|---|
| Note 17 – Trade and Other Payables | The intra-government balances note 17b was updated to reconcile back to the analysis by type note 17a as there was variances between the two notes due to casting errors. | Yes |
| Note 18 - Provisions for Liabilities and Charges | The analysis of expected timing of discounted cash flows note was updated to move the expected timing of legal claims within one year, which brings the split of current liabilities to alignment with the Statement of Financial Position. | Yes |
| Note 19 – Capital Commitments | The capital commitments note was updated from £3.887 million to £3.849 million to reflect items which had initially been recorded but weren't committed to at the 31 March 2024. | Yes |

# 2. Action plan and recommendations – Financial statements audit (1)

We have identified four recommendations for Forestry and Land Scotland during our audit of the financial statements for the year ended 31 March 2024. We have agreed our recommendations with management and will report on progress on these recommendations during our 2024/25 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | **1. Land Valuation Database**<br>Within the land valuation database, the finance team have access to edit the formulas used to create the calculations behind the forest estate and land and biological asset figures within the Annual Report and Accounts. Alternative backups of the programme are saved but there is a risk of accidental formula editing. | We recommend that the outputs of the system should have read-only access and the finance team should only be able to upload information without the ability to edit the core process.<br>Management Response: Management will review to see if the formulae can be locked down. Management do not see this as a medium priority as we have not had any issues with the outputs. We also have a small team and changes may need to be made in the future.<br><br>Responsible Officer: Colin Buchanan, Senior Finance Manager – Head of FSD<br>Implementation Date: 30th December 2024 |
| Medium | **2. E-Financials**<br>There is no review of users with security access to E-Financials. Whilst the systems team have no direct financial reporting duties, there is a potential risk associated within their role and reporting structure, as they are technically part of the finance team reporting to the Head of Finance and there is a possibility that they may have access to sensitive financial information and/or be involved in the financial processes. | We recommend that administration user activities are reviewed periodically to ensure that those with rights are not involved in any financial reporting or processes that could compromise the integrity of financial data.<br>Management Response: Segregation of duties do apply. Audit reports will be reviewed and introduced as part of the Aspen System, where it will be automated. We will discuss with Mastech (the system implementer) best practice.<br><br>Responsible Officer: Jennie Smith, Financial Controller<br>Implementation Date: 31st May 2025 |



Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# 2. Action plan and recommendations – Financial statements audit (2)

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Low | 3. Accrued Income<br><br>There is no detailed review of the renewables (hydro and wind) accrued income calculations with the individuals' supporting workings within Forestry and Land Scotland preparing the calculation being solely relied upon. The responsible individual is the only member at Forestry and Land Scotland who has the knowledge and expertise to complete the accrual. This present a potential risk for the organisation in terms of succession planning and if unforeseen sick leave arises.<br><br>Additionally, there is no post year-end review of accrued income estimates versus actuals to identify any variances and to update the accounts accordingly up to the date of signing and billing has been delayed in the current year due to numerous factors. | Given the size of the accrual, we recommend that the finance team perform a detailed review of the calculations to mitigate the risk of human error and a post-year end review of estimates v actuals should be undertaken to ensure the position recorded within the Annual Report and Accounts is not materially misstated. Billing should be undertaken on a more timely basis to provide additional evidence to management.<br><br>Additionally, Forestry and Land Scotland should consider succession planning, to ensure there are sufficiently prepared in terms of unexpected leave.<br><br>Management Response: This is relating to renewables income. It has been identified internally as an area that needs improvement. We will ensure that the accrual has additional support and scrutiny for 2024-25 and the calculations have been checked.<br><br>Responsible Officer: Jennie Smith, Financial Controller supported by Chris Abrams, Estates Commercial Manager and Kim Stewart-Hobbs, Senior Finance Manager – Management Accounts<br><br>Implementation Date: Meeting to be held in September so all parties agree with full backing documentation to be included in the audit timetable as part of the draft accounts 2024-25. |

# 2. Action plan and recommendations – Financial statements audit (2)

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Low | 4. Fixed Asset Registers<br><br>Forestry and Land Scotland do not have a single fixed asset register which directly reconciles back to the figures disclosed within the financial statements. There are multiple Fixed Asset Registers in use (separate registers for each category. | A single fixed asset register should be developed for all assets which directly reconcile to the Statement of Financial Position and the figures disclosed within the financial statements.<br><br>Management Response: Aspen should deliver this functionality, however this is still to be tested. The individual asset registers reconcile to the different categories giving read across to the notes in the accounts. This will only be implemented if it is seen to be cost effective. This will not be implemented for 2024-25 financial year.<br><br>Responsible Officer: Iain Gray. Senior Finance Manager – Accounts and Compliance<br>Implementation Date: 2025-26 if possible |

# 3. Action plan and recommendations – Wider scope and Best Value (1)

We have set out below, based on our audit work undertaken in 2023/24, the key recommendations arising from our wider scope and Best Value audit work:

| Recommendation | Agreed management response |
| --- | --- |
| 1. Internal Audit – Limited Assurance Opinion<br>Forestry and Land Scotland received a limited assurance opinion from their internal auditors for the second straight year. This is a significant issue which management need to address going forward into future years.<br>Recommendation: There are weaknesses in the current control environment which need to be addressed. The internal auditors have identified that a number of recommendation raised during 2023/24 relate to the same themes as recommendations made in previous years. As such, they are not confident that systemic issues are being addressed and that learning and good practice from reviews is being shared across business areas. Forestry and Land Scotland need to action the recommendations raised by internal audit and ensure that these are communicated across the organisation. | Management Response: The new CEO and Accountable Officer has requested that a work plan be established to address the audit opinion with key resources assigned to its implementation.<br>Responsible Officer: Michael Hymers, Director of Corporate Services<br>Implementation Date: plan by 31st December |
| 2. Internal and external audit recommendation<br>Progress towards the implementation of both internal and external audit recommendations is monitored by the Audit and Risk Committee. We noted that there are a number of open actions which Forestry Land and Scotland require to address<br>Recommendation: Management should seek to implement all audit recommendations on a timely basis. | Management Response: The new CEO has requested a complete review and relaunch of the assurance framework including the management of outstanding audit actions.<br>Responsible Officer: Michael Hymers, Director of Corporate Services<br>Implementation Date: plan by 31st December |

# 3. Action plan and recommendations – Wider scope and Best Value (2)

| Recommendation | Agreed management response |
| --- | --- |
| 3. Financial reporting in the Annual Report and Accounts<br>The Annual Report and Accounts provides detail on the funding and financial outturn as part of the Performance Analysis section. This include detail over the grant funding received from the Scottish Government, the operational and trading income generated and total operational and trading expenditure. However, there is no section in the Annual Report and Accounts which provides a succinct overview of Forestry Land and Scotland's overall performance against budget. Inclusion of this information would provide greater clarity on Forestry Land and Scotland's performance in year and also provide a mechanism to include details behind overspends/underspends in year.<br>Recommendation: Forestry Land and Scotland should provide additional detail on financial performance in year as part of the Annual Report and Accounts, including how the final outturn compared to budget. | Management Response: Accepted. The Management Accounts have been improved so that performance in 2024-25 is monitored against budgets as well as focusing on forecasts. The performance section of the Annual Accounts will be reviewed to reflect these improvements. The format of the SoCNE will be reviewed for implementation in 2024-25.<br>Responsible Officer: Jennie Smith, Financial Controller<br>Implementation Date: June 2025 |
| 4. Workforce Planning<br>There is a risk that with the workforce challenges facing Forestry and Land Scotland, the organisation have inadequate resources and capacity in place to deliver its objectives.<br>Recommendation: Forestry and Land Scotland should seek to implement the organisational workforce plan in a timely manner following the completion of the programme of transformation change. | Management Response: As agreed with the Senior Management team, materials for the revised approach to workforce planning have been developed and it is expected that the new approach will be launched in late September/early October by the HRBP and Advisory team. Workforce planning will be at 'meso level' with each of the Regions and National teams and will be carried out every 6 months, this process will include succession planning. We will also be developing procedures and policies to support these processes. It is also intended to develop an organisational level workforce plan; however this will be developed following the completion of the programme of transformational change.<br>Responsible Officer: Lindsay Anderson, Head of People Services<br>Implementation Date: Fully implemented December 2025 |

# 4. Follow up of prior year recommendations (1)

We identified the following issues in the audit of Scottish Forestry's 2022/23 financial statements, which resulted in 16 recommendations being reported in our 2022/23 Annual Audit Report. We have performed additional work in year to obtain assurance whether the recommendation from prior year has been closed and resolved in the current year or whether the issue still exists and the recommendation remains open and/or in progress. 7 out of 16 recommendations have been cleared, 8 recommendations remains ongoing, and 1 was superceded.

**Recommendations from financial statements audit**

| Assessment | Issue and recommendation previously communicated | Management update on actions taken to address the issue | Auditor Conclusion |
|---|---|---|---|
| Complete | **1. Review of FReM Accounting Policies**<br>The financial statements do not contain all necessary disclosures set out per the FReM and as such, are not fully compliant. Details have been highlighted within the disclosure misstatements within Appendix 1 within the prior year audit report. This includes numerous outlined areas such as critical estimates and judgements, segmental reporting and leases.<br>**Recommendation**: Management should complete the FReM Financial Statement Disclosure Checklist and FReM Annual Report Disclosure Checklist to ensure all required accounting policies are met and appropriate disclosures are included within the financial statements and to ensure the annual report and accounts are aligned. | Work started in reviewing the updated FReM for the current financial year and making comparisons to the prior year framework. Checklist completed. | We are satisfied that management has responded to the recommendation and from the completion of the FReM disclosure checklists, we noted only minor changes to be made. |
| Ongoing | **2. Audit Evidence and Working Papers to support the Annual Accounts Process**<br>Audit records should be available with underlying working papers to support balances in the accounts. These should tie-back to the trial balance, which in turn ties to the unaudited accounts and that changes in versions of accounts and the trial balance should be suitably tracked, to support the accounts process. Significant work was required by the audit team to complete reconciliation to the financial statements.<br>**Recommendation**: Management should ensure that sufficient supporting audit evidence is available to support the balances disclosed in the accounts. | Requirements were discussed with the audit team prior to the year-end audit and working papers provided as part of the year end audit. | We recognise that improvements have been made in this area, however, this recommendation remains ongoing, and there are still further areas where the underlying working can be enhanced to ensure they reconcile back to the figures disclosed within the financial statements. |

# 4. Follow up of prior year recommendations (2)

## Recommendations from financial statements audit (continued)

| Assessment | Issue and recommendation previously communicated | Management update on actions taken to address the issue | Auditor Conclusion |
|---|---|---|---|
| Ongoing | **3. Journals – Users, Dates, Names and Authorisation**<br>There is no automated reviewing/authorisation of journals posted in the ledger, with the system not being set up to facilitate this. There are 383 users who are able to post journals within the system.<br>Consequently, reliance is placed on offline reviews, which Forestry and Land undertake to help identify any unusual journals being posted. From our journal testing completed, we noted various journals that were posted incorrectly which required subsequent corrections and cases where the journal name had not been updated within the journal template. As such, as the reviewer/approver is not easily identifiable, management should review the current system processes and update to ensure that the individuals preparing, reviewing, posting and authorising journals can be easily seen and to ensure sufficient review of journals being posted are undertaken to reduce the risk of fraud or error from the opportunity to override management controls.<br><br>**Recommendation:** Review the processes in place for the authorisation of journals and consider introducing a formalised method of journal authorisation. The listing of journal users with the ability to post journals should be reviewed and updated as appropriate. | Forestry and Land Scotland has made users aware of current processes to ensure those involved in the preparing, reviewing, authorisation and posting of journals are aware of their responsibilities. The current process will still be in place until the new financial system is implemented. | This item remains ongoing until a new finance system is implemented. In the current year, there was still 384 users with the ability to post journals and it was noted, that the journal form pulls through the name of individual as a journal poster as he created the journal template, although they no longer works at the organisation. |

# 4. Follow up of prior year recommendations (3)

## Recommendations from financial statements audit (continued)

| Assessment | Issue and recommendation previously communicated | Management update on actions taken to address the issue | Auditor Conclusion |
|---|---|---|---|
| Ongoing | **4. Year-End Transactions**<br>Our testing identified issues in relation to cut-off transactions (income being receipted in the bank account but not being assigned and invoices not being appropriately accrued for). Therefore, there is a risk that transactions are not recorded in the correct financial year.<br><br>**Recommendation:** A review of transactions around year-end should be undertaken by management as part of the annual reports and accounts process to ensure transaction are reported within the appropriate financial year. | A more stringent review period will be implemented this year end to ensure year-end transactions are captured correctly. These will also be in our year-end timetable to ensure they are carried out in a timely fashion. | This action remains ongoing and issues were identified in the audit in the current year around transactions which had not been accrued for. |
| Ongoing | **5. Review of Valuers Reports for Reasonableness**<br>Our testing identified a transposition error on the valuers report which was found after the completion of year-on-year analytical procedures which found a 849% movement on an asset. There is a risk if valuers reports are not sufficiently reviewed by management on receipt, errors could be contained which are then transferred into the financial statements.<br><br>**Recommendation**: Management should ensure that all external expert outputs are properly reviewed, and procedures implemented to identify any significant errors arising. | An extra review step has been implemented this financial year end to ensure a more thorough review of the valuers reports. | This action remains ongoing and issues were identified with variances identified between the figures disclosed within the financial statements and the valuers report. |

# 4. Follow up of prior year recommendations (6)

## Recommendations from financial statements audit (continued)

| Assessment | Issue and recommendation previously communicated | Management update on actions taken to address the issue | Auditor Conclusion |
|---|---|---|---|
| Complete | **9. Infrastructure Assets**<br>Infrastructure assets are inalienable assets, expenditure on which is only recoverable by continued use of the asset created. For Forestry and Land Scotland, infrastructure assets include roads, forest tracks and other similar type assets.<br>There is an increased focus around infrastructure assets and there is a risk that these are not fairly stated within the financial statements.<br>**Recommendation:** Forestry and Land Scotland should review its arrangements for recording infrastructure assets and the level of detail, to support additions, disposals and derecognition and complete an assessment to determine if any elements are capital in nature.<br>Alongside this, we would recommend a full review of the Useful Economic Lives (UEL) and ensuring that management can justify the UEL determined, and how this is evidenced. | There has been an ongoing review of Forestry and Land Scotland infrastructure assets. | We are satisfied that management has responded to the recommendation. Forestry and Land Scotland have continued to review their assessment of infrastructure assets and no additional matters have arisen. |

# 4. Follow up of prior year recommendations (4)

## Recommendations from financial statements audit (continued)

| Assessment | Issue and recommendation previously communicated | Management update on actions taken to address the issue | Auditor Conclusion |
|---|---|---|---|
| Complete | **6. Revenue Generating Land Assets**<br>From review of the valuation reports, we identified a number of assets which are revenue generating and challenged management over the classification. It was determined that these are not held solely for capital appreciation or to earn rentals however, there is a risk that these are not classified correctly.<br>**Recommendation**: On an annual basis, management should review the classification of land assets to ensure correct disclosure is being made and accounted for correctly within the financial statements | A paper has been written on this to ensure the correct disclosures are made going forward. | We are satisfied that management has responded to the recommendation. Forestry and Land Scotland have continued to review their treatment of revenue generating land assets and no additional matters have arisen. |
| Complete | **7. IFRS 16 – Right of Use Assets**<br>The right of use assets were included within Note 7 – Property, Plant and Equipment however, these were not included as a separate stand-alone category and were split across existing categories of Property, Plant and Equipment (e.g. land, dwellings & other buildings).<br>This is the first year of implementation however, a separate category will be necessary going forward so amounts brought forward, additions, depreciation and amounts carried forward can be clearly identifiable.<br>**Recommendation:** Management should review the layout of the right of use disclosure and update accordingly to meet FReM requirements. | Within the PPE note in the notes to the financial statements, a separate ROU category has been included, as well as a separate table splitting out the right of use assets accordingly. | We are satisfied that management has responded to the recommendation. Forestry and Land Scotland have added additional disclosures to their annual report and accounts. |

# 4. Follow up of prior year recommendations (5)

## Recommendations from financial statements audit (continued)

| Assessment | Issue and recommendation previously communicated | Management update on actions taken to address the issue | Auditor Conclusion |
|---|---|---|---|
| Ongoing | **8. Accounts Review Comments**<br>Accounts review comments were shared with management on the 27 July 2023 and collated comments and issues arising from the engagement manager and leader review of the accounts, disclosure checklist points, casting issues and issues raised from the annual accounts hot review.<br>These were not responded to on a timely basis despite following up and discussion with management on at least three occasions by the audit team, resulting in issues being identified at a late stage of the audit.<br><br>**Recommendation:** Management should ensure accounts review comments are reviewed and actioned at the earliest opportunity, with responses being provided in full for all items as partial and late responses lead to difficulties in closing the audit. | Work was progressed to ensure comments were addressed in a more timely manner. | This recommendation remains ongoing. Although improvements were made since the prior year, there was still a delay in returning the accounts review comments in full to the audit team and this was received out with the agreed upon timescales. |

# 4. Follow up of prior year recommendations (7)

## Recommendations from financial statements audit (continued)

| Assessment | Issue and recommendation previously communicated | Management update on actions taken to address the issue | Auditor Conclusion |
|---|---|---|---|
| Ongoing | **10. Holiday and Flexi Pay Accrual**<br>The holiday and flexi pay balances are collated by each cost centre manager who will record on a spreadsheet at year-end and share with the Senior HR Manager, and an accrual is then calculated from these reports. Across each cost centre it was noted that there was an inconsistent approach on leave being carried forward.<br>There is an increased risk that being reliant on cost centre managers will result in human errors arising within the year-end balances and subsequent accrual.<br>**Recommendation:** Forestry and Land Scotland should review their holiday and flexi pay policies to ensure consistency across the organisation. We would recommend the payroll system be utilised to record the holiday and flexi pay balances. | The integrated HR & Payroll system is used to manage holidays. 2022-23 was the first year that leave was managed this way and some teething issues arose by members of staff and managers about the conversion of leave into hours. Ongoing upskilling sessions on iTrent are run throughout the year so all staff have the opportunity to become fully competent in the use of the system.<br>Managers have been reviewing year-end annual leave balances to identify issues/staff in excess before year-end. Plans are in place to move flexi to the e–system. | As noted, this recommendation is ongoing with plans in place to move the management of flexi pay to the e-system. |
| Complete | **11. NFI**<br>The matches for the NFI exercise were released in January 2023. Processes and arrangements are in place for investigating the matches. All matches should be followed up on and the results recorded on the NFI system.<br>**Recommendation:** Report NFI progress updates the Audit and Risk Committee.<br>Consider completing the self-appraisal checklist referred to in the 2021 NFI Report. | All Forestry and Land Scotland matches were extracted to an offline file for initial review March 2023. The initial review was undertaken on any high risk matches or those indicating potential fraud. The initial review identified no issues. The offline file was used to review matches with relevant colleagues and close matches in the NFI database. Forestry and Land Scotland have used the NFI self-appraisal checklist.<br>An update is included on ARC report. | We are satisfied that management has responded to the recommendation. Forestry and Land Scotland have reported regular updates in terms of NFI to the Audit and Risk Committee and completed the self-assessment. |

# 4. Follow up of prior year recommendations (8)

## Recommendations from financial statements audit (continued)

| Assessment | Issue and risk previously communicated | Management update on actions taken to address the issue | Auditor Conclusion |
|---|---|---|---|
| Ongoing | **12. Financial Sustainability – Transformation Plans**<br>Forestry and Land Scotland are heavily reliant on cash reserves in future years in order to eliminate deficits predicted for 2023/24 and beyond.<br>Recommendation: A depth of pace will need to be undertaken on the transformation programme to ensure the Forestry and Land Scotland can bridge the significant deficits in a short space of time, to ensure that not only efficiencies can be delivered but that financial sustainability can be achieved. To ensure financial sustainability for the medium to longer term, difficult decisions will be required and these may be dependent on the level of grant funding received in future years. Forestry and Land Scotland will need to ensure its cost base is fully understood so it is able to deliver increased productivity and efficiency initiatives to reduce costs and deliver financial benefits. The organisation will need to upscale the pace and delivery of transformation to achieve and mitigate the risk of becoming financially unsustainable. | A transformation programme has now been established with input from an external public sector change expert who will provide the additional capacity we need to help us identify and prioritise programmes in Forestry and Land Scotland, including change and continuous improvement activity. The change agent will support the design and implementation of the programme that supports the Board and wider organisation in developing and deciding between a range of options for delivering sustainable transformational change. This will include the development of an appropriate governance framework for change management, agreement of success criteria for the change management programme and individual change projects, and business case development requirements to support options appraisal and effective decision making principles, together with a performance reporting framework to ensure any change programme remains on track, time and budget and delivering on key success objectives. Michael Hymers will be acting as SRO and internal audit will be present on the board to provide additional assurance. | Work continues to be ongoing at Forestry and Land Scotland in order to improve medium and longer-term financial planning and as such, this recommendation remains ongoing. |

# 4. Follow up of prior year recommendations (9)

## Recommendations from financial statements audit (continued)

| Assessment | Issue and risk previously communicated | Management update on actions taken to address the issue | Auditor Conclusion |
|---|---|---|---|
| Ongoing | **13. Financial Sustainability - Reserves**<br>There is a risk that continued reliance on reserves to bridge funding gaps will create financial sustainability issues for Forestry and Land Scotland.<br>Recommendation: The organisation will need to continue to monitor the percentage level of adequate reserves as funding gaps continue to grow and as Forestry and Land Scotland looks to transformation in future years to ensure reserves do not dip to an unsustainable level.<br>We appreciate management's response and understand the reserves position forms part of the annual budget and longer-term financial planning process. | This ties into the above, long-term Forestry and Land Scotland will be financially sustainable. The reserves give the organisation the ability to cover fluctuations in the income. | Forestry and Land Scotland still have a reliance on the use of reserve to manage planned deficits over the short-term.<br>This recommendation remains ongoing. |
| Complete | **14. Vision, Leadership and Governance – ARC Self-Evaluation**<br>There is a risk that the Audit and Risk Committee is not complying with good practice and cannot evidence its effectiveness.<br>Recommendation: In line with good practice and governance arrangements, Forestry and Land Scotland's Audit and Risk Committee should look to implement an annual self-evaluation and consider the results on an annual basis to identify strengths, areas for improvement and be able to succession plan. | The members of the Audit & Risk Committee were asked by the Chairman to reflect on and evaluate the performance of the ARC during 2024. The output from this has been included within Audit and Risk Committee papers. | The results of the self-evaluation exercise were presented to the ARC in June 2024. The results have been discussed with the Secretariat to inform the further development of the ARC and its effectiveness in supporting the Accountable Officer and Chief Executive therefore, this action has been completed. |

# 4. Follow up of prior year recommendations (10)

## Recommendations from financial statements audit (continued)

| Assessment | Issue and risk previously communicated | Management update on actions taken to address the issue | Auditor Conclusion |
|---|---|---|---|
| Superseded | **15. Use of Resources - Workforce Planning**<br>There is a risk that with the workforce challenges facing Forestry and Land Scotland, the organisation have inadequate resources and capacity in place to deliver its objectives.<br>**Recommendation**<br>An overarching longer-term workforce plan should be developed and embedded across the organisation. | There is a current approach to workforce planning within the five Regional Teams, involving analysing limited workforce data and discussions with Regional Managers. Activities are also ongoing to create a system for vacancy management, including tight management of fixed term contracts, sickness absence, maternity leave, career breaks, etc.<br><br>Further to discussion and agreement by the Senior Management team, materials for the revised approach to workforce planning have been developed and it is expected that the new approach will be launched in late September/early October by the HR Business Partners and Advisory team. | Forestry and Land Scotland have yet to implement an organisational workforce plan. It will be introduced following the completion of the programme of transformation change.<br><br>This recommendation has been superseded by our new recommendation on Financial Sustainability at **Appendix 3.** |

# 4. Follow up of prior year recommendations (11)

## Recommendations from financial statements audit (continued)

| Assessment | Issue and risk previously communicated | Management update on actions taken to address the issue | Auditor Conclusion |
|---|---|---|---|
| Complete | **16. Climate Change Reporting**<br>There are currently no specific disclosure requirements on climate change and environmental matters. However, public bodies should be including climate change in their consideration of principal risks and making disclosures accordingly. Narrative reporting requirements and expectations should relate to both the body's impact on the environment, and the impact climate change may have on the body's future. The Financial Reporting Council completed a thematic review of climate change-related considerations explaining the general requirements of IFRS providing a clear framework for incorporating the risks of climate change into financial reporting and although this review focused on companies, the principles can be applied to public sector bodies.<br><br>**Recommendation**<br>Forestry and Land Scotland should review their current disclosures to ensure that their narrative reporting adequately reflects their exposure to climate-related issues and how they are monitoring and managing these risks. | This has been included within the front-end of the Annual Report and Accounts. | The 2023/24 Annual Report and Accounts contains a section headed Environmental Matters which discloses how Forestry and Land Scotland are addressing their exposure to climate related issues. It provides detail on their Climate Change Plan, which sets out the actions being implemented in order to achieve zero direct business emissions by 2024/25. |

# 5. Audit fees, ethics and independence (1)

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the required of the Financial Reporting Board's Ethical Standard.

As part of our assessment of our independence we note the following matters:

| Matter | Conclusion |
|---|---|
| Relationships with Grant Thornton | We are not aware of any relationships between Grant Thornton and Forestry and Land Scotland that may reasonably be thought to bear on our integrity, independence and objectivity. |
| Relationships and Investments held by individuals | We have not identified any potential issues in respect of personal relationships with the entity or investments in the organisation held by individuals. |
| Employment of Grant Thornton staff | We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the organisation as a director or in a senior management role covering financial, accounting or control related areas. |
| Business relationships | We have not identified any business relationships between Grant Thornton and Forestry and Land Scotland. |
| Contingent fees in relation to non-audit services | No contingent fee arrangements are in place, note that there are no non-audit services provided. |
| Gifts and hospitality | We have not identified any gifts or hospitality provided to, or received from, a member of the organisation's board, senior management or staff. |

# 5. Audit fees, ethics and independence (2)

### Fees and non-audit services

The tables below set out the total fees for audit and other services charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

For the purposes of our audit, we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Forestry and Land Scotland. The table summarises all non-audit services which were identified.

**External Audit Fee**

| Service | Audit Plan £ | Annual Audit Report £ |
|---|---|---|
| External Auditor Remuneration | £119,230 | £134,440 |
| Pooled Costs | £12,040 | £12,040 |
| Sectoral Cap Adjustment | -£23,240 | -£23,240 |
| **2023/24 Audit Fee** | **£108,030** | **£125,940*** |

**Fees for other services**

| Service | Fees £ |
|---|---|
| We confirm that for 2023/24, we did not receive any fees for non-audit services | Nil |

*The reason for the fee variation of £17,910 is due to the new risk areas / and additional work required in the following areas that is additional during 2023/24:

- Journals – additional work due to the higher risk environment because of the lack of authorisation controls;
- Biological assets and forest estate and land valuation – the use of a specialist valuer was required to provide challenge and assurance when parts of the valuation were materially different in their valuation compared to the previous year;
- Sample progression and tracking – audit team had to provide tracking of samples three times each week to the finance team which is significantly more than normal;
- Timeliness of sample evidence being provided – supporting documentation was not provided for all samples on a timely basis (often only one element of the request was returned resulting in additional follow up queries);
- Additional audit staff were required to remain longer on the audit as a result in the week of the 12th August 2024 and the final set of accounts went beyond the expected closure date for the audit with work required in the weeks of 19th August and 26th August 2024;
- Two extrapolated errors – as a result of these errors, additional work and additional sample testing was required on the populations and;
- Working papers – additional work was required as numerous working papers did not tie to the financial statement line item resulting in additional work.

# 5. Audit fees, ethics and independence (3)

The fees do not reconcile directly to the financial statements.  We have provided a reconciliation below to reconcile. The figures are in round thousands as per the disclosure in Note 3, auditors' remuneration – audit work.

| | |
|---|---|
| Fees per financial statements | £126 |
| **Fee per previous slide** | **£126** |

**The final audit fee was approved by the Audit and Risk Committee on 3 September 2024.**

## Client service

We take our client service seriously and continuously seek your feedback on our external audit service.  Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com).  Alternatively, should you wish to raise your concerns further please contact Mark Stocks, Partner and Head of Public Sector Assurance, 103 Colmore Row, Birmingham, B3 3AG.   If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to John Gilchrist, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2021 (grantthornton.co.uk)

# 6. Communication of audit matters

International Standard on Auditing ISA (UK) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance. These are set out in the table below.

| Our communication plan | Audit Plan | Annual Report (our ISA 260 Report) |
|---|---|---|
| Respective responsibilities of auditor and management/those charged with governance | • | |
| Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks | • | |
| Confirmation of independence and objectivity | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant matters in relation to going concern | • | • |
| Views about the qualitative aspects of Forestry and Land Scotland's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures | | • |
| Significant findings from the audit | | • |
| Significant matters and issues arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report, or emphasis of matter. | | • |

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