

Annual Audit Report for Forestry and Land Scotland

For the year ended 31 March 2025

4 December 2025

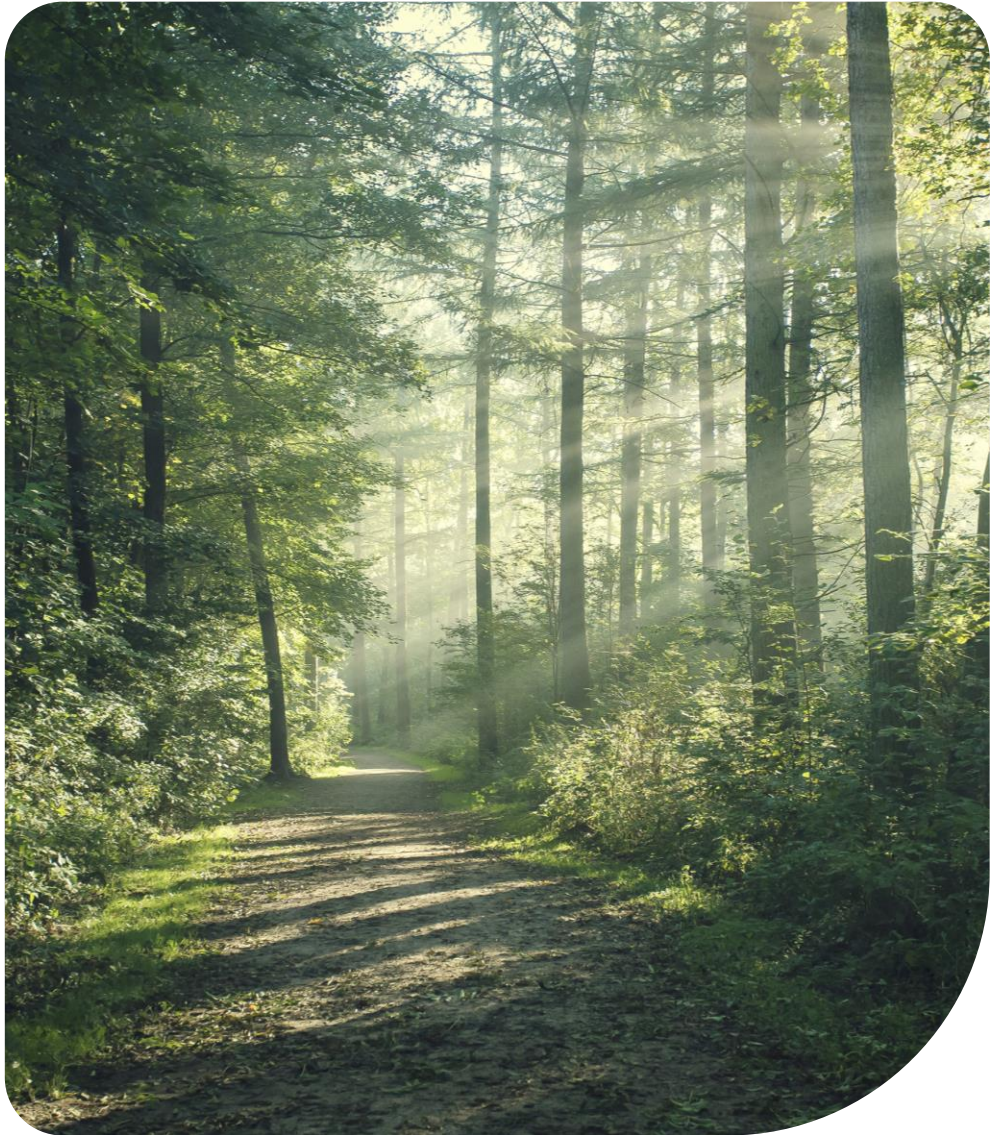


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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject 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 Audit Practice 2021). We do not accept any responsibility for any loss occasioned to any third part 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.

1 Headlines

Headlines (1)

Summary of 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 2025 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 2025 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 2024/25 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 2024/25 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 materially consistent with the financial statements or our knowledge obtained in the audit, has been prepared in accordance with the requirements or otherwise appears to be materially misstated.

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 received the first draft of the financial statements with working papers on 27 June 2025 which were presented on time. 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.

At the audit planning stage, it was identified that the audit would be delivered in a later cycle than the Audit Scotland target timelines (by the end of August). This was due to audit staff availability, plus allowing time for officers to implement the new general ledger system Aspen that was originally planned for implementation in the summer. The timeline was agreed to conduct the audit in September and October, with final Committee in November. Since this agreement, the implementation of Aspen was moved to November 2025, with the audit cycle remaining as planned.

There are areas of improvement for future years, as additional audit resource was required, resulting in additional audit fee. One area noted was the time taken for the return of some sample items, this was often outside of expected time ranges and where multiple pieces of evidence were requested, more evidence was sought for some samples. The full detail of the reasons for the additional audit fee are set out on page 68, with the additional fee being levied of £24,200.

Headlines (2)

Summary of 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 2025 for those charged with governance (Audit and Risk Committee) and the Auditor General for Scotland.

Financial statements

Our findings are summarised on pages 7 to 45. We have identified two adjustments to the primary financial statements above our reporting threshold that management have adjusted. We have identified several disclosure amendments that management has adjusted. We have identified one unadjusted misstatement, and the decision to not amend does not impact the audit opinion. The amendments are detailed on pages 37 to 45. One prior period adjustment (PPA) were identified during the audit, which was material to the financial statements:

- Grant-in-aid was previously recognised through the Statement of Comprehensive Net Expenditure (SoCNE) rather than the Statement of Changes in Taxpayers' Equity (SoCTE), which is the correct treatment under applicable accounting guidance.

Further details of this PPA is included on pages 29.

We have also raised five recommendations for management as a result of our audit work. These are set out in [Appendix B](#). There were four recommendations from 2023/24 and six recommendations from the 2022/23 audit which remained outstanding, and we have followed up on as part of the 2024/25 audit, with three recommendations being closed relating to 2022/23 and two recommendations being closed relating to 2023/24. Our follow up of recommendations from the prior year's audit are detailed in [Appendix C](#). The follow up of recommendations and the scrutiny of the implementation process to action external audit recommendations requires improvement.

Our work on journals in the prior two years, 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 2024/25 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 C](#). We noted in prior years, 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.

Our work is complete on the financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

We have issued an unmodified opinion on the financial statements on 4 December 2025.

We would like to thank officers for their co-operation during the audit process.

Headlines (3)

Summary of 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 2025 for those charged with governance (Audit and Risk Committee) and the Auditor General for Scotland.

Wider scope and best value arrangements

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 2025, we documented our assessment of the wider scope risks and planned audit work. At the planning stage, we identified one significant risk and one potential significant risk:

- **Financial sustainability** – future financial plans for 2025/26 and beyond.
- **Vision, Leadership and Governance** – potential significant risk relating to governance arrangements and the continued limited internal audit assurance opinion.

Furthermore, central government bodies in Scotland have a legal duty to deliver "Best Value" in their services. This means they must make arrangements to ensure continuous improvement in their performance, while maintaining a balance between quality and cost, and consider economy, efficiency, effectiveness, equal opportunities and sustainable development. The Code of Audit Practice requires auditors to consider the arrangements put in place by Accountable Officers to meet their best value obligations.

Within this Report, we outline our work undertaken in response to each of the four wider scope areas including the arrangements in place within Forestry and Land Scotland and conclude on the effectiveness and appropriateness of these arrangements based on the work carried out.

Further details of the work undertaken are outlined on pages 46 to 65.

Forestry and Land Scotland have arrangements in place to secure best value and we have considered these arrangements as part of our regular wider scope work. We have noted that the organisation has no mechanism for formally reviewing and reporting on the arrangements to secure best value and raised this as a recommendation for management. This is set out in [Appendix B](#).

We have followed up the wider scope recommendations made during our previous audits. There were two recommendations outstanding from the 2023/24 audit and one outstanding from the 2022/23 audit. Two recommendations from 2023/24 and one recommendation from 2022/23 has been closed. This is set out in [Appendix C](#). The follow up of recommendations and the scrutiny of the implementation process to action external audit recommendations requires improvement.

There remains a significant risk in respect of financial sustainability given the financial challenges Forestry and Land Scotland faces over the longer term and continued receipt of one-year funding settlements provided by the Scottish Government.

In addition, our work during 2024/25 has confirmed a significant risk has not materialised in relation to vision, governance and leadership. This is the third year of internal audit providing limited assurance in their annual opinion. Action plans are in place which are tracked and monitored by the Audit and Risk Committee, to address internal audits observations and progress has been made to address the risks that internal audit have raised.

2 Our approach to materiality

Our approach to materiality (1)

As communicated in our Audit Plan dated 5 March 2025, we determined materiality at the planning stage as £111.431 million based on 2% of prior year total assets. On receipt of draft financial statements, we have reconsidered planning materiality based on the 2024/25 figures in the draft financial statements.

Our approach to determining materiality is set out here.

Materiality area	Amount (£)	Qualitative factors considered
Materiality for the financial statements	£110.365 million	This is equivalent to approximately 2% of the total assets for the period ended 31 March 2025. Our materiality has been updated to reflect the 2024/25 figures in the draft financial statements although there has been no change to the % outlined within our audit plan. In 2023/24, materiality was 94.716 million, which represented 1.7% of total assets.
Performance materiality for the financial statements	£77.255 million	Performance materiality has been set at 70% of financial statements materiality. This reflects our risk-assessed knowledge of potential for errors occurring. Performance materiality is used for the purposes of assessing the risks of material misstatement and determining the nature, timing, and extent of further audit procedures. This is the amount we set at less than materiality for the financial statements as a whole, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In 2023/24, performance materiality was £66.301 million which represented 70% of our calculated materiality.

Our approach to materiality (2)

Materiality area	Amount (£)	Qualitative factors considered
Reporting threshold	£5.518 million	<p>This balance is set at 5% of materiality.</p> <p>In 2023/24, our trivial threshold was £4.736 million, and 5% of materiality.</p>
Income, Expenditure, Debtors, Creditors and Cash	£4.64 million	<p>A lower level of materiality is set for specific items within the Statement of Comprehensive Net Expenditure and the Statement of Financial Position. This is based upon 2% of total expenditure. The lower level does not include income and expenditure transactions which enter the revenue account due to technical account adjustments (e.g. gain or loss on the revaluation of biological assets and property, plant and equipment).</p> <p>In 2023/24 the value set was £3.555 million which was based upon 1.7% of total expenditure. The performance materiality for these elements are £3.248 million, based upon 70% of the lower materiality (2023/24 was £2.489 million and 70%).</p>
<p>Auditable elements of the Remuneration and Staff Report:</p> <ul style="list-style-type: none"> • Single total figure of remuneration for each minister and director • Pension cash equivalent transfer value (CETV) disclosures for each minister and director • Payments to past directors • Payments for loss of office • Fair pay disclosures • Exit packages <p>The analysis of staff numbers and costs note will be audited at headline materiality.</p>	£25,000	<p>Due to the public interest in the specified remuneration disclosures, we apply specific audit procedures to this work and set a lower materiality level for this area. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for the specified remuneration disclosures.</p> <p>We evaluate errors in this disclosure for both quantitative and qualitative factors against this lower level of materiality. We will apply heightened auditor focus in the completeness and clarity of disclosures in this area and will request amendments to be made if any errors exceed the threshold we have set or would alter the bandings reported for any individual.</p> <p>The performance materiality for these elements are £18,750, based upon 75% of lower materiality (2023/24 was £18,750 and 75%).</p>

3 Overview of significant risks identified

Overview of significant risks identified

The below table summarises the significant risks discussed in more detail on the subsequent pages.

Significant risks are defined by ISAs (UK) as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the degree to which risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement if that misstatement occurs. A significant risk can be a significant risk due to error or due to fraud. For the purposes of the ISAs (UK), the auditor is concerned with fraud or suspected fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

As part of our consideration of risks relating to fraudulent financial reporting, we consider the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage income and expenditure in order to influence Forestry and Land Scotland’s year-end performance.

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Level of judgement or estimation uncertainty	Findings
Risk 1 Management override of controls	Significant	↔	✓	Low	●
Risk 2 Valuation of forest estate and land	Significant	↔	✗	High	●
Risk 3 Valuation of biological assets	Significant	↔	✗	High	●
Risk 4 Fraud in revenue recognition	Significant	↔	✓	Medium	●

Key:

- ↑ Assessed risk increase since Audit Plan
- ↔ Assessed risk consistent with Audit Plan
- ↓ Assessed risk decrease since Audit Plan
- No adjustment or change in disclosure required
- Non-material adjustment or change in disclosure required
- Material adjustment or change in disclosure required

Overview of significant risks identified – financial statements (1)

Risk 1 identified in our Audit Plan	Audit procedures performed	Key observations
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>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.</p> <p>We have therefore identified management override of controls, in particular journals, management estimates and of transactions outside the course of business as a significant risk of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> documented an understanding of and evaluated the design effectiveness of management controls over journals; analysed the journals listing and determined the criteria for selecting high risk unusual journals and tested these journals identified; challenged management’s key judgements and estimates and considering whether these judgements and estimates are individually or cumulatively indicative of management bias; tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness; and Evaluated any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work has not identified any significant issues in respect of management override of controls.</p> <p>We are satisfied from our work performed that there has been no identified instances of management override of controls that would result in a material misstatement of the financial statements.</p> <p>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.</p> <p>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 312 users who have the ability to post journals.</p> <p>We identified that the Financial Controller has administrative access rights within E-Financials which introduces a segregation of duties risk. We have raised a recommendation around the review and removal of access rights at Appendix B. 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 C.</p>

Overview of significant risks identified – financial statements (2)

Risk 2 identified in our Audit Plan	Audit procedures performed	Key observations
<p>Valuation of forest estate and land</p> <p>In accordance with the HM Treasury Financial Reporting Manual (FRoM), 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, as a proxy for fair value. Non-specialised forest estate, land and buildings, such as offices, are held at fair value.</p> <p>Forestry and Land Scotland appointed BNP Paribas 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 Johnson Poole & Bloomer, Wardell Armstrong LLP and Galbraith.</p> <p>As at 31 March 2025, Forestry and Land Scotland held property, plant and equipment (PPE) of £2.342 billion including forest estate and land of £2.264 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.</p>	<p>We have:</p> <ul style="list-style-type: none"> 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 competence, capabilities and objectivity of management's valuation expert; wrote to the valuer to confirm the basis on which valuations were carried out and challenged the valuer of the rates used; challenged the key data and assumptions used by management's experts in the valuation process for these assets 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; tested a sample of other asset revaluations made during the year to ensure they have been input accurately into the body's asset register and associated entries in the financial statements; made use of an internal auditor's expert to assess aspects of the valuation instructions issued by Forestry and Land Scotland to their valuers and final valuations; 	<p>Our audit work has not identified any issues in relation to the valuation of forest estate and land.</p>

Overview of significant risks identified – financial statements (3)

Risk 2 identified in our Audit Plan	Audit procedures performed	Key observations
<p>Valuation of forest estate and land (continued)</p> <p>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 will therefore focus 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.</p> <p>The valuation of forest estate and land is a key audit matter.</p>	<p>We have:</p> <ul style="list-style-type: none">• gained an understanding of assets not formally revalued in year, although none were identified; and• reviewed your impairment assessment as to whether there are indicators of impairment.	

Overview of significant risks identified – financial statements (4)

Risk 3 identified in our Audit Plan	Audit procedures performed	Key observations
<p>Valuation of biological assets</p> <p>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.</p> <p>Forestry and Land Scotland appointed BNP Paribas 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 2025, Forestry and Land Scotland held biological assets of £3.037 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.</p>	<p>We have:</p> <ul style="list-style-type: none"> 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 competence, capabilities and objectivity of management’s valuation expert; wrote to the valuer to confirm the basis on which valuations were carried out and challenged the valuer of the rates used; challenged the key data and assumptions used by management’s experts in the valuation process for these assets 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; 	<p>Our audit work has not identified any issues in relation to the valuation of biological assets.</p>

Overview of significant risks identified – financial statements (5)

Risk 3 identified in our Audit Plan	Audit procedures performed	Key observations
<p>Valuation of biological assets (continued)</p> <p>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 will therefore focus 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.</p> <p>The valuation of forest estate and land is a key audit matter.</p>	<p>We have:</p> <ul style="list-style-type: none"> • tested a sample of other asset revaluations made during the year to ensure they have been input accurately into the body's asset register and associated entries in the financial statements; • made use of an internal auditor's expert to assess aspects of the valuation instructions issued by Forestry and Land Scotland to their valuers and final valuations; • gained an understanding of assets not formally revalued in year, although none were identified; and • reviewed your impairment assessment as to whether there are indicators of impairment. 	

Overview of significant risks identified – financial statements (6)

Risk 4 identified in our Audit Plan	Audit procedures performed	Key observations
<p>Fraud in Revenue Recognition (occurrence)</p> <p>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.</p> <p>The risk of management manipulation and fraud is deemed to be low in relation to other income and government grant income. We have therefore rebutted the risk of fraud in revenue in relation to these income streams.</p> <p>However, Forestry and Land Scotland continues to face significant external pressure to deliver planned budgets, minimise any overspends and become self-sustainable. Forestry and Land Scotland's budget indicates that it will recognise income from forestry operations and income from receivables in 2024/25 which we deem to be material to the financial statements. The timber revenue figure is vital to Forestry and Land Scotland in order to meet agreed targets for 2024/25 whilst the income from receivables is subject to estimation uncertainty. We have therefore identified the risk of fraud in revenue in relation to these two income streams.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated your accounting policy for recognition for appropriateness and compliance with the FREM; performed substantive testing of transactions at and around year end to verify the accounting period the transactions relate to and confirm that transactions have been recognised in the correct accounting period; reviewed post year end receipts and verify the accounting period these transactions relate to and confirm they have been accounted for in the correct accounting period; and reviewed the judgements and estimates made by management when recognising accrued and deferred income at year end within the financial statements and where appropriate challenge management accordingly. 	<p>Forestry and Land Scotland have made progress in terms of improvements around controls in relation to accrued income, including the introduction of regular meetings between the finance and commercial teams to review estimates v actuals.</p> <p>We do note that Forestry and Land Scotland are still reliant on one individual to complete the accrued income calculations, and no detailed review of these calculations are undertaken.</p> <p>Furthermore, we identified that there has been limited focus on the calculation of the hydro accrual in comparison to the wind accrual, due to limited resource. The accrual is not material at present, but at this experiences the planned growth in future years, this will become a material issue.</p> <p>From our walkthroughs, we identified that quarterly audits are undertaken of weighbridge data however, there are opportunities to enhance the documentation to ensure a sufficient audit trail is maintained.</p> <p>We have raised a recommendation within Appendix B around the audit evidence and opportunities to enhance with regards to the quarterly audit of weighbridge data and a follow up on the accrued income recommendation is provided within Appendix C.</p> <p>Our audit work has not identified any material issues in respect of revenue recognition for 2024/25.</p>

Overview of significant risks identified – financial statements (7)

Risk identified in our Audit Plan	Audit procedures performed	Key observations
<p>Fraud in Expenditure Recognition</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>(rebutted significant risk)</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated your accounting policy for recognition of expenditure for appropriateness and compliance with FReM; 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; reviewed the judgements and estimates made by management when recognising accruals and provisions at year end within the financial statements and where appropriate challenged management accordingly. 	<p>Our audit work has not identified any significant issues in respect of expenditure recognition.</p> <p>Our audit work did identify the use of general purchasing cards. There are 248 card users with a general purchase card, with expenditure across 2024/25 totalling £1,052,445 (11,005 transactions), with average card user spending £4,244.</p> <p>Being a public sector body, with the number of card users, and volume/value of transactions, we recommend that card usage is limited and staff should utilise the formal procurement routes and expense system in place. We have raised a recommendation within Appendix B.</p>

4 Other findings

Other findings – key judgements and estimates (1)

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

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
<p>Property, Plant and Equipment: valuation of forest estate and land. £2.264 billion (2023/24 £2.270 billion)</p> <p>Note 7 Property, Plant and Equipment</p>	<p>BNP Paribas carried out a valuation of the Forest Estate including non-forest land, houses and other buildings as at 31 March 2025.</p> <p>The methodology was agreed in advance and differing valuation methods were used to report Fair Value figures, in line with the requirements of the Scottish Public Finance Manual and RICS guidance. These included the Comparative Method and Depreciated Replacement Cost Method.</p> <p>Professional valuations of other land-related assets such as windfarms, hydro schemes, leased mineral sites and telecoms masts were also undertaken as at 31 March 2025. These were valued by the relevant firms of Chartered Surveyors appointed as managing agents for the various assets (including BNP Paribas, Johnson Poole & Bloomer, Wardell Armstong LLP and Galbraith).</p>	<p>We have:</p> <ul style="list-style-type: none"> deepened our risk assessment procedures performed including understanding processes and controls around the identification and determination of estimates. This included understanding methods, assumptions and data used; discussed management's determination of accounting estimates with those charged with governance, for example, qualitative considerations, the development and validation of models, data integrity and the selection of inputs; considered the competence, capabilities and objectivity of the key valuation expert used by Forestry and Land Scotland (BNP Paribas and Galbraith). We have not identified any concerns; considered the data and assumptions used by management to derive the accounting estimate. We have not noted any issues with the completeness and accuracy of this underlying information; <p><i>Continued overleaf</i></p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

Other findings – key judgements and estimates (2)

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Property, Plant and Equipment: valuation of forest estate and land.	<p>When revalued assets are sold, the amounts included in the revaluation reserve are transferred to the general fund.</p> <p>No depreciation is charged on non-current assets held for resale.</p>	<ul style="list-style-type: none"> we have considered the movements in the valuations of individual assets. This work has not raised any issues with the 2024/25 valuations; confirmed that there have been no changes to the valuation method this year; and assessed the reasonableness of the disclosures related to accounting estimates. <p>Conclusion</p> <p>We have not identified any material issues.</p>	

Other findings – key judgements and estimates (3)

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
<p>Property, Plant and Equipment: depreciation including useful economic lives (UELs).</p> <p>£5.270 million</p> <p>(2023/24 £5.225 million)</p> <p>Note 7 Property, Plant and Equipment</p>	<p>As reported in Note 1.9 the organisation's approach to depreciation is:</p> <p>Land (forest estate and non-forest land) is not depreciated.</p> <p>Assets under construction are not depreciated until the asset is capable of operating in the manner intended by management.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>When revalued assets are sold, the amounts included in the revaluation reserve are transferred to the general fund.</p> <p>No depreciation is charged on non-current assets held for resale.</p>	<p>Our testing of property, plant and equipment included reviewing the useful lives. Additionally, we have tested how management have made the accounting estimate whilst also developing an auditor's point estimate/range and comparing to the actual depreciation charged in year.</p> <p>Conclusion</p> <p>Our work is concluded in this area. In Appendix B, we have raised a recommendation that Forestry and Land Scotland should develop and formally approve an accounting policy for VME depreciation stating the depreciation method to be applied (e.g. straight-line, reducing balance) and the useful life estimates for the asset category.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

Other findings – key judgements and estimates (4)

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
<p>Biological Asset: valuation of forest estate and land.</p> <p>£3.037 billion (2023/24 £3.106 billion)</p> <p>Note 8 Biological Assets</p>	<p>BNP Paribas carried out an annual valuation of the biological assets as at 31 March 2025.</p> <p>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.</p> <p>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.</p> <p>Revaluation gains and losses are recognised in the Statement of Comprehensive Net Expenditure in the year of revaluation.</p>	<p>We have:</p> <ul style="list-style-type: none"> deepened our risk assessment procedures performed including understanding processes and controls around the identification and determination of estimates. This included understanding methods, assumptions and data used; discussed management's determination of accounting estimates with those charged with governance, for example, qualitative considerations, the development and validation of models, data integrity and the selection of inputs; considered the competence, capabilities and objectivity of the key valuation expert used by Forestry and Land Scotland (BNP Paribas). We have not identified any concerns; considered the data and assumptions used by management to derive the accounting estimate. We have not noted any issues with the completeness and accuracy of this underlying information; <p><i>Continued overleaf</i></p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

Other findings – key judgements and estimates (5)

Key judgement or estimate	Summary of management’s approach	Auditor commentary	Assessment
Biological Asset: valuation of forest estate and land		<ul style="list-style-type: none"> we have considered the movements in the valuations of individual assets. This work has not raised any issues with the 2024/25 valuations; confirmed that there have been no changes to the valuation method this year; and assessed the reasonableness of the disclosures related to accounting estimates. <p>Conclusion</p> <p>We have not identified any material issues. for the asset category.</p>	

Other findings – key judgements and estimates (6)

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
<p>Accruals and Deferred Income</p> <p>Current – £30.521 million</p> <p>Non-Current – £0.036 million</p> <p>(2023/24 current £38.614 million and non-current £2.042 million)</p> <p>Note 16 Trade and Other Payables</p>	<p>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:</p> <p>Manual accruals</p> <p>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.</p> <p>PO accruals</p> <p>These are purchase order-based accruals which are automatically made.</p> <p>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.</p>	<p>We have performed over a sample of accruals including the holiday pay accrual and deferred income.</p> <p>Conclusion</p> <p>From our audit work, we have not identified any issues.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

Other findings – key judgements and estimates (7)

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
<p>Prepayments and Accrued Income</p> <p>Current - £16.420 million (2023/24 £12.530 million)</p> <p>Note 13 Trade and Other Receivables</p>	<p>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:</p> <p>Manual accruals</p> <p>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).</p> <p>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.</p> <p>Invoice accruals</p> <p>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.</p> <p>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.</p>	<p>We have performed testing over a sample of accrued income including manual accruals such as wind and hydro accruals.</p> <p>Conclusion</p> <p>From our audit work, we identified an unadjusted misstatement, which has been reported within section 6 of this report. The unadjusted journal increased renewables income for under accrual of revenue rents, which was partially offset by an over-accrual of SRP uninvoiced transactions based on estimates. This was not unadjusted by management as significantly below materiality.</p>	<p>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic in relation to accrued income.</p>

Other findings – key judgements and estimates (8)

	Conclusion
<p>Revenue Generating Land assets</p> <p>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:</p> <p>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</p> <ul style="list-style-type: none"> (a) Use in the production or supply of goods or services or for administrative purposes; or (b) Sale in the ordinary course of business <p>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.</p> <p>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.</p> <p>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.</p>	<p>We are satisfied with management's assessment that these land assets are classified as property, plant and equipment within the financial statements.</p>

Other findings – key judgements and estimates (9)

	Conclusion
<p>Infrastructure assets</p> <p>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.</p> <p>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.</p>	<p>We are satisfied with management’s assessment of infrastructure assets within the financial statements.</p>

Other findings – prior period adjustment (1)

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

	Audit procedures performed	Key observations
<p>Prior period adjustment (PPA) – Annual Subsidy Limit</p> <p>With the new format of the SoCNE, from review, it was identified that included within the government grant line, was the Annual Subsidy Limit of £8.169 million. This is grant-in-aid and therefore, should be recognised through the SoCTE, rather than within the SoCNE.</p> <p>The adjustment relates to an item that should have been recognised in the prior period, as the underlying conditions existed at that time and its omission resulted in a material misstatement of the financial statements. As a result, a PPA was required to restate the prior year's accounts to reflect the correction.</p>	<p>We have:</p> <ul style="list-style-type: none"> • obtained a breakdown for the grants feeding into the Government Grant Income line in the new SoCNE to identify grant-in-aid and project specific grant funding; • agreed each of the grants to supporting documentation (i.e. grant letters) and bank (where applicable); • considered the accounting treatment of each of grant, and whether the positioning on the SoCNE was correct or whether this should be accounted for within the SoCTE; and • challenged management on the remaining grant income to ensure income was provided to fund specific activities or services and is matched against the related expenditure to reflect the net cost of operations. 	<p>The impact on the primary statements is as follows:</p> <ul style="list-style-type: none"> • Statement of Comprehensive Net Expenditure reduced by £8.169 million and Statement of Changes in Taxpayers' Equity increased by £8.169 million, with a funding from Scottish Government line incorporated. • Statement of Cash Flows: cash flows from operating activities decreased by £8.169 million and cash flows from financing activities increased by £8.169 million. • There is no net impact on government grant income being received by Forestry and Land Scotland, and this is an adjustment across the primary statements.

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	Related significant risks / other risks
E-Financials (Financial Reporting)	ITCG design and implementation effectiveness only.	Fraud in revenue recognition Management override of control
Land Valuation Database	ITCG design and implementation effectiveness only.	Valuation of Forest Estate and Land Valuation of Biological Assets
ForesterWeb (Sub-Compartment Database)	ITCG design and implementation effectiveness only.	Valuation of Forest Estate and Land Valuation of Biological Assets
Sales Recording Package (SRP)	ITCG design and implementation effectiveness only.	Fraud in revenue recognition Management override of control

The new financial ledger system, Oracle went live on the 5 November 2025. As part of our 2025/26 audit, IT work will be undertaken on the new system, likely supported by our IT audit colleagues.

Management Update: Aspen was implemented as planed on the 5 November 2025. There has been no significant issues to date with the system identified.

5 Communication requirements and other responsibilities

Communication requirements

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 control, fraud risk and any known or suspected frauds in year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
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 Annual Report and Accounts.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We have not identified any cases of money laundering or fraud at Forestry and Land Scotland.
Written representations	A letter of representation has been requested from the Forestry and Land Scotland as required by auditing standards. This can be found as a separate item to this report. We request specific representation around significant judgements for infrastructure assets and revenue generating land assets. Both of these areas were included in the prior year Letter of Representation also. We will also request specific representations around the PPA being accurate and complete.

Communication requirements (2)

Issue	Commentary
Accounting practices	We have evaluated the appropriateness of Forestry and Land Scotland's accounting policies, accounting estimates and financial statement disclosures. A number of minor amendments were made to the accounting policies to enhance the transparency of the disclosures within the Accounts, which are documented within section 6 of this report.
National Fraud Initiative	<p>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, receive matches for investigation.</p> <p>Forestry and Land Scotland partook in the latest NFI exercise of which 809 matches were identified. In August, 804 matches had been processed, representing 99% of all matches identified, emphasising a good level of activity and engagement.</p>
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 responsibilities (1)

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 2024). The Financial Reporting Council 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.

Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:

- the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities.
- for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of Forestry and Land Scotland's financial sustainability is addressed by our wider scope work, which is covered elsewhere in this report.

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 Forestry and Land Scotland meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:

- the nature of Forestry and Land Scotland and the environment in which it operates
- Forestry and Land Scotland's financial reporting framework
- Forestry and Land Scotland's system of internal control for identifying events or conditions relevant to going concern
- management's going concern assessment.

In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management's assessment of the appropriateness of the going concern basis of accounting and on the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:

- a material uncertainty related to going concern has not been identified; and
- management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Other responsibilities (2)

Issue	Commentary
Other information	<p>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.</p> <p>Minor amendments have been made to the Annual Report and we are satisfied that there are no unadjusted material inconsistencies to report.</p>
Auditable elements of Remuneration Report and Staff Report	<p>We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been prepared properly in accordance with the requirements of the Financial Reporting Manual (FReM) 2024/25, and directions there under.</p> <p>We have audited the elements of the Remuneration Report and Staff Report, including the Fair Pay Multiple Disclosures, as required by the FReM. We have raised a number of disclosure adjustments as outlined in section 6.</p>
Governance Statement	<p>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) 2024/25.</p> <p>No inconsistencies have been identified and we plan to issue an unqualified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required by the Auditor General for Scotland to report on a number of matters by exception if, in our opinion:</p> <ul style="list-style-type: none"> adequate accounting records have not been kept; the financial statements and the audit part of the Remuneration and Staff Report are not in agreement with the accounting records; 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. <p>We have nothing to report on these matters.</p>

Other responsibilities (3)

Issue	Commentary
Regularity	<p>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.</p> <p>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.</p>

6 Audit adjustments

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

The table below provides details of all non-trivial errors which we identified during the course of our 2024/25 audit which management have amended for within the final set of financial statements.

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Statement of Changes in Taxpayers' Equity £'000
Reclassification of Lease Receivable			
Dr Non-Current Lease Receivable		976	
Cr Current Lease Receivable		(976)	
<i>Being the adjustment of receivable ageing based on error in the working paper ageing analysis.</i>			
Removal of Annual Subsidy Limit			
Dr Government Grant Income	17,249		
Cr Funding from Government - SoCTE			(17,249)
<i>Being the removal of annual subsidy limit from I&E and recognition in SOCTE.</i>			

Audit adjustments (2)

Impact of unadjusted misstatements – current year

The table below provides details of all non-trivial errors which we identified during the course of our 2024/25 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.

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Statement of Changes in Taxpayers' Equity £'000	Reason for not adjusting
Prepayments and Accrued Income				
Dr Accrued Income		607		
Dr Income from Forestry Operations	160			
Cr Income from Renewables	(767)			Non-material error.
<i>Being the increase in renewables income for under accrual of revenue rents, partially offset by an over-accrual of SRP uninvoiced transactions based on estimates.</i>				

Audit adjustments (3)

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 unadjusted misstatements – prior year

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.

To decision to not amend the 2023/24 or the 2024/25 unadjusted misstatements does not impact upon the 2024/25 audit opinion as the impact upon the financial statements is not material.

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Statement of Changes in Taxpayers' Equity £'000	Reason for not adjusting
Revaluation of Forest Estate and Land				
Dr Forest Estate and Land		9,171		Non-material error. No impact on 2024/25 as the valuation of forest estate and land is adjusted annually.
Cr Revaluation Reserve			9,171	
<i>Being the recognition of the variance to the valuers report for forest estate and land.</i>				
Accrued Income				Non-material error thus, no material impact on 2024/25.
Dr Income	743		743	
Cr Accrued Income		(743)		
<i>Being the adjustment to correctly record accrued income up to the date of signing the financial statements following the receipt of additional information.</i>				

Audit adjustments (4)

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 unadjusted misstatements – prior year continued

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Statement of Changes in Taxpayers' Equity £'000	Reason for not adjusting
Completeness of Expenditure				Non-material error. Non-material error thus, no material impact on 2024/25.
Dr Expenditure	290		290	
Cr Accrued Expenditure		(290)		
<i>Being the adjustment to correctly record accruals which have not being recorded at the year-end.</i>				
Overall impact	1,033	8,138	10,204	Non-material error. As noted above, only the accrued income and completeness of expenditure adjustments would be relevant to factor into the cumulative position of errors to take forward into 2024/25.

Misclassification and disclosure changes

Disclosure	Misclassification or change identified	Adjusted?
Review of Annual Report and Accounts (General)	We identified minor casting errors, figures which had not yet been included and formatting issues as part of our review of the Annual Report and Accounts. These were raised and processed by management where necessary.	✓
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.	✓
Remuneration and Staff Report	<p>We identified the following issues within the Remuneration and Staff Report which were updated for:</p> <p><u>Single Figures of Remuneration:</u></p> <p>There were several individuals whose bandings were incorrectly rounded – management have subsequently reviewed and updated.</p> <p><u>Pensions Benefits:</u></p> <p>The 2023/24 Pension Benefits disclosure was missing from the draft Annual Report and Account. This has subsequently been added. This omission was due to the fact the pension remedy was utilised in the prior year. As these are new figures within the Annual Report and Accounts, the 2023/24 figures has been audited by the audit team.</p> <p><u>Exit Packages:</u></p> <p>There was no 2023/24 prior year comparator for the exit package disclosure as required by IAS 8. This has subsequently been incorporated into the disclosure.</p> <p>The following disclosure was not updated:</p> <p><u>Trade Union Disclosures:</u></p> <p>The trade union disclosures do not provide details on the total cost of facility time or total pay bill, as required by the FReM.</p>	<p>✓</p> <p>X</p>

Audit adjustments (6)

Disclosure	Misclassification or change identified	Adjusted?
Note 1 – Accounting Policies	<p>There is opportunities to enhance the disclosures in the following areas to ensure full compliance with the FReM:</p> <ul style="list-style-type: none"> • Lessee Disclosures (in line with IFRS 16) • Pension Disclosures (in line with IAS 19) 	X
	<p>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. This includes non-investment asset valuations, accounting for social benefits and IFRS 18: Presentation Disclosure in the Financial Statements.</p>	✓
Note 2 – Critical Accounting Estimates and Judgements	<p>International Financial Reporting standards prescribe the required disclosures in relation to critical judgements. It also requires separate consideration of accounting estimates. 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. 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. 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:</p> <ul style="list-style-type: none"> (a) their nature, and (b) their carrying amount as at the end of the reporting period. <p>Examples of other disclosures helpful to the user of the accounts include</p> <ul style="list-style-type: none"> - the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity; - 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 - an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved 	X

Audit adjustments (7)

Disclosure	Misclassification or change identified	Adjusted?
Note 3 – Net Operating Expenditure	A narrative disclosure has been added to the footnote of Note 3, to provide a breakdown of the auditors' remuneration figure, to allow easy reconciliation to the audit fee disclosed on page 68.	✓
Note 9 – Investment in Joint Ventures	A narrative disclosure has been updated to Note 9, to provide context around the rationale why Camping in the Forest is not consolidated within Forestry and Land Scotland's accounts. This is due as the ultimate control of the entity does not lie with Forestry and Land Scotland and it is not material to the body.	✓
Note 10 – Financial Instruments	<p>From the review of the financial instruments disclosure, a number of items were identified had been inappropriately included/omitted within the financial assets and liabilities balances as they did not meet the definition as they were statutory payables/receivables. These were:</p> <p><u>Financial assets</u></p> <ul style="list-style-type: none"> • Omitted accrued income (£14,937k) • Included tax receivable (-£1,003k) <p><u>Financial liabilities</u></p> <ul style="list-style-type: none"> • Included holiday pay accrual (-£2,154k) • Included pension / HMRC payable (-£20k) 	✓
Note 16 – Trade and Other Payables	In the payables disclosure, management identified that there were £3.971 million relating to non-current lease liabilities sitting within current other payables in the draft version of accounts. This was subsequently amended and was only reflected of being a disclosure misstatement.	✓
Task Force on Climate Related Financial Disclosures	We have identified opportunities for Forestry and Land Scotland to enhance their climate related disclosures in line with the Task Force on Climate Related Financial Disclosures (TCFD)'s recommended disclosures which became effective for the 2024/25 reporting period. We have raised a recommendation at Appendix B for management to review during 2025/26.	X

Audit adjustments (7)

Disclosure	Misclassification or change identified	Adjusted?
Prior period adjustment	Enhancements were made to prior period adjustment note to outline the reason for the adjustment and to disclose the changes in primary statements from the previous audited 2023/24 accounts. The term 'restated' was added to any relevant part of the financial statements that were amended as result and narrative was including within the note to state 2023/24 opening balances were not impacted by the restatement.	✓

7 Wider scope and best value arrangements

Wider scope and best value arrangements

Our responsibilities under the Code extend beyond the audit of the financial statements. The Code sets out four audit areas that frame wider scope into specified reporting criteria. These are as set out below:



Financial management

Has the body got sound budgetary process, financial capacity and the control environment and internal controls are operating effectively.



Financial Sustainability

How the body looks forward to the medium and longer term to consider whether the body is planning effectively to deliver its services or the way in which they should be delivered.



Vision, Leadership and Governance

How effective are the body's scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.



Use of Resources to Improve Outcomes

How the body makes 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.

The Code also requires that auditors assess and report on audited bodies' performance in meeting their Best Value, as part of their annual audit. For central government bodies, we are required to consider the arrangements put in place by Accountable Officers to meet their Best Value obligations as part of our risk-based wider-scope audit work.

Wider scope and best value conclusions

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 and one potential risk in relation to vision, leadership and governance and as part of our audit work at year-end, this risk is rated as amber and a significant risk has not materialised. We have followed up our prior recommendations at Appendix C.

Area	Risk Consideration and Focus	Risk Identified	2024/25 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	Forestry Land and Scotland have appropriate financial management arrangements in place. In 2024/25, Forestry Land and Scotland reported a net surplus of £1.1 million. The Annual Report and Accounts lacks a clear summary of Forestry and Land Scotland’s performance against budget. Including this in future reports would improve transparency and provide stakeholders with a clearer view of financial performance.
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 body to effectively deliver services in the future.	Yes	Forestry Land and Scotland do not prepare medium to longer-term financial plans which makes it difficult to assess the financial sustainability of the organisation over the longer term. Forestry Land and Scotland have initiated the development of a rolling three-year business and financial plan, and this should be formally finalised and supported by shorter term detailed financial and savings plans which essential for sustainability and resilience. Forestry and Land Scotland has established a ‘Fit for the Future’ Programme to identify new approaches to working and developing a financially sustainable business model over the longer-term. This programme will be required to identify efficiencies which will assist in bridging the 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.
Vision, Leadership and Governance	The effectiveness of Forestry and Land Scotland’s governance arrangements and the arrangements in place to deliver the vision, strategy and priorities set by the body.	Yes	Internal Audit issued a limited assurance opinion for 2024/25, the third consecutive year. Action plans are in place which are tracked and monitored by the Audit and Risk Committee, to address internal audits observations over national and regional office governance and the clarity of these roles, in respect of ownership and accountability. We note progress during the year over the recommendations and plans are in place, to address the risks that internal audit have raised. The actions by management are in progress and not yet concluded and/or embedded within the organisation. We will review the status of implementation, next year, alongside internal audit.
Use of Resources to Improve Outcomes	How Forestry and Land Scotland demonstrates economy, efficiency and effectiveness through its use of financial and other resources.	No	Forestry Land and Scotland are developing an updated Corporate Plan covering 2025-2028 which set the priorities over the medium term and due to be agreed before the end of 2025. 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. Workforce planning is ongoing with an organisational workforce planning exercise currently taking place.



Wider scope – Financial management

Financial management is concerned with having sound budgetary processes and an understanding of the financial environment and whether internal controls are operating effectively.

Audit plan risk	Wider scope audit response	Conclusion
No significant risk identified at planning.	<p>Forestry and Land Scotland’s Financial Management Arrangements</p> <p>The financial performance monitoring process is reported to each meeting of Forestry and Land Scotland’s Strategic Advisory Board. The monitoring reports are also presented to Executive Leadership Team meetings as an integral part of the budget monitoring process.</p> <p>Variances from budget are 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.</p> <p>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 last revised alongside the Scottish Government in July 2023.</p> <p>Finance Team</p> <p>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.</p>	<p>Our review of financial reports during the year did not identify any significant issues.</p> <p>Financial policies and procedures have been reviewed and we are satisfied the financial regulations are reasonable, current and promoted within the body.</p> <p>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.</p>

Wider scope – Financial management (2)

Audit plan risk	Wider scope audit response	Conclusion																					
No significant risk identified at planning.	<p>Financial Performance</p> <p>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 2023. For 2024/25, the original budgeted grant to be received from Scottish Government was £27.849 million. The final grant received totalled £37.479 million, with an addition £3.645 million received through Autumn Budget Revisions and £5.985 million through Spring Budget Revisions to support peatland restoration work and to protect and restore Scotland’s Atlantic Rainforest.</p> <p>Forestry and Land Scotland’s outturn for 2024/25 is shown in the table below:</p> <table> <tr> <th></th><th>Budget £m</th><th>Actual £m n</th></tr> <tr> <td>Total Direct Income</td><td>(£126.9)</td><td>(£149.9)</td></tr> <tr> <td>Total Income from SG Funded Programmes</td><td>(£25.8)</td><td>(£15.4)</td></tr> <tr> <td>Total Direct Costs</td><td>£137.9</td><td>£126.2</td></tr> <tr> <td>Total Indirect Costs</td><td>£4.2</td><td>£4.3</td></tr> <tr> <td>Total National Costs</td><td>£33.1</td><td>£33.7</td></tr> <tr> <td>Net (Surplus)/Deficit</td><td>£22.4</td><td>(£1.1)</td></tr> </table> <p>Forestry and Land Scotland financial performance in 2024/25 was a significant improvement on the initial budget. This was mainly a result of significant increase in operational and trading income, due to increased income from timber operations.</p>		Budget £m	Actual £m n	Total Direct Income	(£126.9)	(£149.9)	Total Income from SG Funded Programmes	(£25.8)	(£15.4)	Total Direct Costs	£137.9	£126.2	Total Indirect Costs	£4.2	£4.3	Total National Costs	£33.1	£33.7	Net (Surplus)/Deficit	£22.4	(£1.1)	Forestry Land and Scotland delivered a surplus for 2024/25, mainly as a result of a significant increase in income from timber operations.
	Budget £m	Actual £m n																					
Total Direct Income	(£126.9)	(£149.9)																					
Total Income from SG Funded Programmes	(£25.8)	(£15.4)																					
Total Direct Costs	£137.9	£126.2																					
Total Indirect Costs	£4.2	£4.3																					
Total National Costs	£33.1	£33.7																					
Net (Surplus)/Deficit	£22.4	(£1.1)																					

Wider scope – Financial management (3)

Financial management is concerned with having sound budgetary processes and an understanding of the financial environment and whether internal controls are operating effectively.

Audit plan risk	Wider scope audit response	Conclusion
No significant risk identified at planning.	<p>Financial reporting in the Annual Report and Accounts</p> <p>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. We reported in our previous audit that 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. While some minor amendments have been made to the 2024/25 Annual Report, there is still no table which shows a clear overview of Forestry and Land Scotland’s outturn position 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.</p>	<p>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.</p> <p>This recommendation was raised as part of the prior year audit and remains an ongoing recommendation, please refer to Appendix C for further details.</p>

Wider scope – Financial sustainability (1)

Financial sustainability is concerned with being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

This slide references the risk identified within our audit plan and audit procedures performed are outlined in response to our identification of a significant risk at the planning stage.

Risk identified in our Audit Plan	Audit procedures performed	Conclusion
We have identified a significant risk in relation to Forestry and Land Scotland’s financial sustainability from our initial planning work in relation to future financial plans for 2025/26 and beyond.	<ul style="list-style-type: none">• Sought to understand the future financial forecasts and plans for Forestry and Land Scotland for 2025/26 and beyond, including key assumptions used, scenario planning, sensitivity analysis, risk analysis and the extent of any budget pressures and impact upon reserves.• Considered the action Forestry and Land Scotland is taking to address identified funding gaps and associated plans and assessing future transformation whilst supporting sustainable delivery of services in accordance with strategic and statutory priorities.	<p>Forestry and Land Scotland are subject to one-year budgets from Scottish Government. Consecutive one-year funding settlements and the fluidity of changing priorities across the Scottish Government create challenges in the organisation’s ability to plan for the medium to longer term. Forestry Land and Scotland have initiated the development of a comprehensive rolling three-year business and financial plan, and this should be formally finalised and supported by shorter term detailed financial and savings plans which essential for sustainability and resilience. 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.</p> <p>There is a risk that continued reliance on reserves to bridge funding gaps will create financial sustainability issues for Forestry and Land Scotland and should the Scottish Government remove funding, this could prove challenging. With increasing inflationary pressures and reduced funding, the organisation is faced with difficult decisions and challenges, which fundamentally, require longer term financial action through transformation to be self-sustainable.</p> <p>Forestry and Land Scotland has established a ‘Fit for the Future’ Programme to identify new approaches to working and developing a financially sustainable business model. The Transformation Programme will be required to identify efficiencies which will assist in bridging the 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. As such, a risk remains for financial sustainability.</p>

Wider scope – Financial sustainability (2)

Audit plan risk	Wider scope audit response	Conclusion
We have identified a significant risk from our initial planning work, as set out in the description on page 52.	<p>Short Term Financial Planning – Budget Setting 2025/26</p> <p>Forestry and Land Scotland is funded primarily through the income which it generates from its operating activities however, the organisation also receives annual funding from the Scottish Government.</p> <p>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.</p> <p>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 2025/26, the Scottish Budget was laid before the Scottish Parliament in December 2024 and indicated that the budget for Forestry and Land Scotland would be £27.2 million.</p> <p>The Forestry and Land Scotland budget for 2025/26 includes estimated direct income of £142.5 million and estimated other income from Scottish Government funded programmes of £20.2 million (total income £162.7 million). Total expenditure in 2025/26 is estimated to be £176.5 million meaning the Forestry and Land Scotland annual budget for 2025/26 is facing a deficit of £13.8 million.</p> <p>The capital budget has estimated capital income of £10.7 million and projected capital expenditure of £9.7 million. This reduces the projected deficit to £12.8 million.</p> <p>This deficit will be met by utilising existing reserves balances.</p> <p>Short Term Financial Planning – Budget Monitoring 2025/26</p> <p>Forestry and Land Scotland presented the Period 5 monitoring report to the Executive Leadership team meeting on 30 September 2025. The report provides an update on the Forestry and Land Scotland’s performance against the 2025/26 budget.</p>	We have not identified any issues regarding the budgeting arrangements in place at Forestry and Land Scotland.

Wider scope – Financial sustainability (2)

Audit plan risk	Wider scope audit response	Conclusion
We have identified a significant risk from our initial planning work, as set out in the description on page 52.	<p>Short Term Financial Planning – Budget Monitoring 2025/26 (continued)</p> <p>The Period 5 revenue budget is forecast an operating loss for 2025/26 £18.2 million. The Period 5 Capital forecast is an outflow of £1.3 million. This results in an overall forecast deficit of £19.5 million.</p> <p>The combined operating and capital overall cash deficit of £17.7 million (£19.5 million less £1.8 million depreciation) will be funded by £17.7 million of subsidy from the Scottish Government to fund the non-commercial public value activities. The net impact to reserves is £0.012 million. As such, Forestry and Land Scotland do not anticipate using a significant amount of reserves balances to deliver a break-even position in 2025/26.</p> <p>Medium Term Financial Planning and Reserves</p> <p>Forestry and Land Scotland are yet to implement formalised longer-term financial planning. Currently, the only budget prepared is for 2025/26, and no multi-year scenario planning has been undertaken. Longer-term financial planning is essential for sustainability and resilience. It enables the organisation to anticipate future funding pressures, manage risks proactively, and align resources with strategic priorities. Without this, decision-making becomes reactive, increasing the risk of short-term cuts and missed opportunities for transformation. Forestry and Land Scotland have initiated the development of a comprehensive rolling three-year business and financial plan, designed to align seamlessly with the organisation’s strategic objectives and priorities, including workforce and people planning.</p> <p>Scenario planning also supports informed choices by modelling different funding assumptions and policy changes. This is particularly important given the organisation’s ambition to reduce reliance on Scottish Government grant funding. Longer-term planning provides a framework for identifying savings, efficiencies, and alternative income streams.</p>	<p>Forestry and Land Scotland are projecting to deliver a break-even position for 2025/26.</p> <p>The organisation should finalise the development of their medium-term financial plan. This plan should include scenario modelling, align with transformation objectives, and set out a roadmap for reducing dependency on Scottish Government grant funding. It should be reviewed annually to remain relevant and responsive to changing circumstances.</p> <p>Please refer to Appendix B where this recommendation has been raised.</p>

Wider scope – Financial sustainability (3)

Audit plan risk	Wider scope audit response	Conclusion
We have identified a significant risk from our initial planning work, as set out in the description on page 52.	<p>Reserves</p> <p>Forestry and Land Scotland holds reserves to support cyclical fluctuations in income and expenditure. Reserves are deployed at the discretion of the Chief Executive & Accountable Officer.</p> <p>The 2024/25 accounts confirm that Forestry and Land Scotland held £89.4 million of cash balances that transfer as reserves at year end 2024/25. The reserves are split as follows:</p> <ul style="list-style-type: none">- Restricted with a specific purpose – £26.2 million (2023/24 £37.8 million). These funds include those relating to land sales and reinvestment programmes. Of this, £18.5 m relates to the redevelopment of Newton Nursery.- Earmarked reserves – £48.2 m (2023/24: £26.7 million). Earmarked to specific projects for protecting and enhancing the National Forests and Land in 2025-26 and beyond, these funds are allocated by the Chief Executive and ELT to protect the future sustainability of the organisation.- Liquidity reserves – £15 million (2023/24: £14.1 million). These are funds that enable the agency to manage the risks it faces from trading and timber price and fluctuations in demand. <p>As part of the 2025/26 budget planning, Forestry and Land Scotland forecasts future reserves balances. The current intention is to utilise £28.8 million of reserves in 2025/26, however it is anticipated that £38.8 million will be added into reserves during the year. As such, Forestry and Land Scotland are projecting that the total cash reserves balance will increase by £10.0 million. Reserves in all areas are expected to increase, due to expected SG funding and ASL planned to exceed the 2025/26 deficit.</p>	<p>Reserves are projected to increase during 2025/26, due to funding received from Scottish Government being greater than the projected deficit in year.</p> <p>There is a risk that continued reliance on reserves to bridge funding gaps will create financial sustainability issues for Forestry and Land Scotland and should the Scottish Government remove funding.</p> <p>We have raised a recommendation for Forestry and Land Scotland to finalise the development of their medium-term financial plan, which should detail the use of reserves – please refer to Appendix B for further details.</p>

Wider scope – Financial sustainability (4)

Audit plan risk	Wider scope audit response	Conclusion
<p>We have identified a significant risk from our initial planning work, as set out in the description on page 52.</p>	<p>Transformation Programme</p> <p>The Executive Leadership Team has established the Fit for the Future Transformation Programme. Forestry and Land Scotland are not currently financially sustainable and as such, the Scottish Government public sector reform is challenging the organisation to be a more self-reliant agency and business. Forestry and Land Scotland raise around 80% of its funding from commercial sources and 20% from Scottish Government. Whilst Forestry and Land Scotland expect to continue to receive an element of funding from the Scottish Government funding, the value will be less certain and harder to secure in future years.</p> <p>Forestry and Land Scotland are challenging themselves to be financially sustainable within the next three years and to give options for the future around the activities it invests in and how best to fulfil this mission. This means making a profit on all commercial activities (timber, estates and renewables and commercial aspects of visitor services) which will enable investment in Forestry and Land Scotland's estate and the public services that it provides.</p> <p>The Fit for the Future Transformation programme outlines that to become financially sustainable Forestry and Land Scotland will:</p> <ul style="list-style-type: none"> • Have better visibility and accountability for revenues and costs supported by better business systems • Prioritise, simplify and reduce duplication of effort by working smartly to place effort on areas of greatest • Actively invest in the estate and assets to deliver a future return, taking and managing calculated risks. <p>The overall goal is to become more financial sustainable, which will be done through targeted work to reduce costs in certain areas. It will not be a result of widespread service reduction. There are no significant savings or planned reductions in services as part of the transformation plan. The Transformation Programme will be a process of continuous improvement, exploring new sources of income, external benchmarking and profitability analysis.</p>	<p>Forestry and Land Scotland must use their Transformation Programme to identify new approaches of working and develop a financially sustainable business model over the longer-term to identify efficiencies which will assist in bridging the 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.</p> <p>For this reason, the recommendation we raised in the prior year around transformation plans remains— please refer to Appendix C for further details.</p>

Wider scope – Vision, Leadership and Governance

Vision, leadership and governance is concerned with whether Forestry and Land Scotland have a clear vision and strategy, and set priorities for improvement within this vision and strategy, and whether Forestry and Land Scotland work together with partners and communities to improve outcomes and foster a culture of innovation.

Audit plan risk	Wider scope audit response	Conclusion
At the planning stage we identified a potential significant risk in relation to arrangements for vision, leadership and governance. We set out work to consider the clarity of plans to implement the vision, strategy and priorities adopted by senior leaders. In addition, we will consider effectiveness of governance and consider the impact of the internal audit annual opinion being limited.	<p>Committee Structure</p> <p>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.</p> <p>The Strategic Advisory Board comprises of the executive directors, non-executive advisors 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.</p> <p>Forestry and Land Scotland 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.</p> <p>The Audit and Risk Committee comprises the non-executive advisors 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.</p>	<p>We are satisfied that the governance arrangements are appropriate with members of the Strategic Advisory Board responsible for supporting the Chief Executive in order to make informed decisions.</p> <p>The Audit and Risk Committee play a role in challenging and scrutinising reports presented, supporting decision-making. However, given the significant number of outstanding audit recommendations, there is scope for the Committee to strengthen its oversight of follow-up actions to ensure timely and sustained implementation.</p> <p>Forestry and Land Scotland published minutes of each Committee online, to ensure transparency of decision making.</p>

Wider scope – Vision, Leadership and Governance (2)

Audit plan risk	Wider scope audit response	Conclusion
Potential significant risk identified at planning as set out on page 57.	<p>Committee Structure (continued)</p> <p>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.</p> <p>An interim Director of Corporate Services and Transformation was appointed on an interim basis in February 2025 and is due to leave their role in December 2025. A new Interim Director of Corporate Services and Transformation has been appointed and commenced their role within Forestry and Land Scotland at the end of November, with plans to recruit on a permanent basis being made. Since year-end, three new non-executive advisor have been appointed and a change has been made around the Strategic Advisory Board Chair, with this role previously held by the Chief Executive, moving to a non-executive advisor.</p> <p>Frequent changes in management structures can disrupt strategic continuity, delay transformation programmes, and create uncertainty for staff, which affects morale and delivery. It also risks losing institutional knowledge and can lead to short-term, reactive decision-making rather than sustained financial planning. Consistent leadership is vital to maintain accountability, ensure progress against long-term objectives, and build stakeholder confidence, supporting financial sustainability and transformation ambitions.</p> <p>Governance Statement</p> <p>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.</p>	<p>From review of the Corporate Governance Statement, we are satisfied that it reflects the key findings from audit, scrutiny and inspection.</p> <p>A new Interim Director of Corporate Services and Transformation has been appointed and joined Forestry and Land Scotland at the end of November. Furthermore, three new non-executive advisors have been appointed since year-end and the Strategic Advisory Board is now chaired by a non-executive advisor.</p>

Wider scope – Vision, Leadership and Governance (3)

Audit plan risk	Wider scope audit response	Conclusion
Potential significant risk identified at planning as set out on page 57.	<p>Internal audit</p> <p>Internal audit activity is undertaken by the Scottish Government’s Internal Audit (IA) Directorate. Internal audit undertook three internal audits reviews during the financial year covering:</p> <ul style="list-style-type: none">• Cyber Security – Reasonable Assurance• HR Recruitment and Retention – Limited Assurance• Regional Management – Limited Assurance <p>This resulted in an overall assurance opinion for the 2024/25 financial year of “Limited Assurance - Controls are developing but are weak”. 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”.</p> <p>Thematic areas identified by internal audit, including in the prior year were clarity over governance, between national and regional offices and internal audit recommendations not been addressed by management, as set out in agreed dates for implementation.</p> <p>The Audit and Risk Committee has an increased focus on reviewing progress against the outstanding internal audit recommendation and this is something we will monitor and report on in our 2025/26 audit.</p> <p>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 23 September 2025, that there are forty-two open actions which Forestry Land and Scotland are working on addressing and of these, 28 are past their original implementation date. We note that while timely implementation of recommendations and effective scrutiny are critical to securing meaningful change, progress has been constrained resulting in a slow delivery of agreed actions. The new balanced scorecard introduced during 2025/26 has included an indicator for recommendation implementation, to provide additional management oversight and scrutiny.</p>	<p>Forestry and Land Scotland have an effective internal audit function in place to assist with assurance over governance framework, risk and internal controls.</p> <p>Management and the Audit and Risk Committee, as planned, should continue to focus on addressing the overdue internal audit recommendations with Audit and Risk Committee actively monitoring progress.</p> <p>A recommendation has raised around the timely implementation of all agreed audit recommendations (both internal and external audit) - please refer to Appendix B for further details.</p>

Wider scope – Vision, Leadership and Governance (4)

Audit plan risk	Wider scope audit response	Conclusion
Potential significant risk identified at planning as set out on page 57.	<p>Risk Management</p> <p>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. To assess risks to the organisation, Forestry and Land Scotland use the Scottish Government risk scoring matrix. The matrix sets out a scale for both impact and likelihood with definitions for each level on the scale.</p> <p>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.</p> <p>At September 2025, of the nine risks on the register, seven were rated as red and two were amber, with the highest rated risk related to the ability to manage the health, safety and physical/mental wellbeing responsibilities for employees, contractor and/or members of the public.</p>	Arrangements to consider and monitor strategic risks facing the organisation are as expected for a central government organisation with risk reported as a standing item to the Audit and Risk Committee.

Wider scope – Use of resources to improve outcomes (1)

Use of resources to improve outcomes is concerned with the need for Forestry and Land Scotland 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.

Audit plan risk	Wider scope audit response	Conclusion
No significant risk identified at planning.	<p>Corporate Planning</p> <p>Forestry and Land Scotland’s Corporate Plan covers the period 2022 to 2025. The Corporate Plan identifies thirteen strategic priorities, mapped against five corporate outcomes:</p> <ol style="list-style-type: none">1. Supporting a Sustainable Economy2. Looking after Scotland’s national forests and land3. Scotland’s national forests and land for visitors and communities4. A Supportive, Safe and Inclusive Organisation5. A High Performing Organisation <p>The Corporate Plan runs until the end of 2025 and as a result, the draft of the Corporate Strategic Plan covering 2026-2030 is in development. The draft has received Cabinet Secretary approval to progress to consultation stage. The consultation commenced on 27 October and concluded on the 21 November. Following this consultation period, revisions will be made to the final document and resubmitted to the Cabinet Secretary for approval in December 2025 prior to publication. The main corporate objective is to move towards a financially sustainable position by March 2029 so that Forestry and Land Scotland can continue to deliver commercial and public value for Scotland for the long-term. The Plan will articulate four main dimensions; people, nature, climate and economy.</p> <p>The Corporate Plan is supported by a business plan, and Forestry and Land Scotland will develop this following the agreement of the Corporate Plan covering a three-year period.. The business plan identifies how Forestry and Land Scotland intend to make progress towards their corporate strategic objectives across a short time period and confirms the key activities that will help deliver against the corporate outcomes.</p>	<p>The new iteration of the Corporate Plan is in development. This has progressed through the consultation stage and once final revisions have been made, will be submitted to the Cabinet Secretary for approval prior to publication in December 2025.</p> <p>Once this has been finalised, Forestry and Land Scotland will need to finalise their three-year business plan to meet the vision within the 2026-2030 Corporate Plan.</p>

Wider scope – Use of resources to improve outcomes (2)

Audit plan risk	Wider scope audit response	Conclusion
No significant risk identified at planning.	<p>Performance reporting</p> <p>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. The KPIs were agreed by the Strategic Advisory Board and outlined in the 2024/25 Business Plan. 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.</p> <p>On review of the 2024/25 performance report, of the thirteen KPIs, nine were showing as green and three were showing as red (target not met). The three KPIs rated red were:</p> <ol style="list-style-type: none">1. Volume of timber brought to the market2. Percentage of women in senior roles to support women’s career progression.3. Number of RIDDOR reportable accidents and injuries. <p>On the whole, Forestry and Land Scotland are performing well against their chosen indicators. Forestry and Land Scotland is a unique organisation and therefore benchmarking against other organisation is not possible. As such, it is difficult to draw comparisons using similar type bodies. However, the targets set look reasonable, and it is clear Forestry and Land Scotland have been ambitious in the setting of targets for each KPI.</p> <p>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. Additionally, for 2025/26, Forestry and Land Scotland have implemented a Balanced Scorecard for Performance Management, which is regularly monitored.</p>	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. For 2025/26, a Balanced Scorecard for Performance Management has been introduced and is regularly monitored.

Wider scope – Use of resources to improve outcomes (3)

Audit plan risk	Wider scope audit response	Conclusion
No significant risk identified at planning.	<p>Workforce Planning</p> <p>At the start of 2024/25, the approach to workforce planning was within the five Regional Teams, involving analysing limited workforce data and discussions with Regional Managers. Activities are were ongoing to create a system for vacancy management.</p> <p>Following discussion and agreement by the Senior Management team, materials for the revised approach to workforce planning have been developed and with a new approach developed in 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.</p> <p>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.</p>	<p>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.</p> <p>We raised a recommendation in the prior year audit around workforce planning which remains ongoing– please refer to Appendix C for further details.</p>

Best value arrangements

The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

The duty of Best Value, as set out in the SPFM, is:

- to make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and, in making those arrangements and securing that balance,
- to have regard to economy, efficiency, effectiveness, the equal opportunities requirements and to contribute to the achievement of sustainable development.

Guidance for Accountable Officers is structured around the nine characteristics for Best Value in the SPFM, grouping into five themes and two cross-cutting themes as follows:

Guidance for Accountable Officers	Scottish Public Finance Manual themes
Vision and Leadership	Commitment and leadership, responsiveness and consultation and sound governance at a strategic and operational level
Effective Partnerships	Joint working, responsiveness and consultation
Governance and Accountability	Responsiveness and consultation, commitment and leadership and accountability
Use of resources	Sound management of resources and use of review and options appraisal
Performance Management	Sound governance at a strategic and operational level, responsiveness and consultation
Equality	Equal opportunities arrangements
Sustainability	A contribution to sustainable development

The Code of Audit Practice requires that auditors assess and report on audited bodies’ performance in meeting their Best Value as part of the annual audit. For central government bodies, we are required to consider the arrangements put in place by Accountable Officers to meet their Best Value obligations as part of our risk-based wider scope audit work.

Best value arrangements (2)

Central government bodies in Scotland have a legal duty to deliver “Best Value” in their services. This means they must make arrangements to ensure continuous improvement in their performance, while maintaining a balance between quality and cost, and consider economy, efficiency, effectiveness, equal opportunities and sustainable development. The Code of Audit Practice requires auditors to consider the arrangements put in place by Accountable Officers to meet their best value obligations.

Conclusion:

Forestry and Land Scotland have arrangements in place to secure best value, as demonstrated in the Performance Report and Accountability Report. We consider these arrangements as part of our regular wider scope work.

The Accountability Report contains Forestry and Land Scotland’s own assessment of the arrangements in place to secure best value. However, we have noted that the organisation has no mechanism for formally reviewing and reporting on the arrangements to secure best value. We recommend that Forestry and Land Scotland should undertake a formal review of the best value assurance framework and complete an assessment of the organisation’s arrangements to secure best value. The outcome of this assessment should be reported to the appropriate Committee at the end of each financial year. Please see recommendation raised within [Appendix B](#).

8 Independence considerations

Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers and managers). In this context, there are no independence matters that we would like to report to you.

We are required to report to you details of any breaches of the requirements of the FRC Ethical Standard, and of any safeguards applied and actions we have taken to address any threats to independence. No breaches have been identified by the team.

We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council'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.
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 for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of Forestry and Land Scotland's board, senior management or staff.

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 (and network firms) 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.

Fees and non-audit services

We confirm below our final fee charged for the audit and confirm there were no fees for the provision of non-audit services.

External Audit Fee	Planned Fees	Final Fees	Fees for other non-audit services	Final Fees
Auditor Remuneration	£124,240	£148,440*	We confirm that for 2024/25 we did not receive any fees for non-audit services	Nil
Pooled Costs	-£10,250	-£10,250		
Sectoral Cap Adjustments	-£3,930	-£3,930		
2024/25 Audit Fee	£110,060	£134,260		

This covers all services provided by us and our network to Forestry and Land Scotland, its directors and senior management and its affiliates, that may reasonably be thought to bear on our integrity, objectivity or independence.

This Annual Audit Report is to be considered by the Audit and Risk Committee on 26 November 2025 including agreement of audit fees.

*Additional auditor remuneration is levied in total for £24,200, bringing the total audit fee to £134,260. As detailed in our Audit Plan from March 2025, additional fees were identified for some additional work required in addition to base fee. At the close of the audit, the reasons for the additional areas of work are noted below:

- Restatement of SoCNE – officers amended the format of the SoCNE during 2024/25 that required the remapping of the format of all income and expenditure including the prior year comparators;
- 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 for the valuation entries within the financial statements;
- Sample progression and tracking – audit team had to provide tracking of samples three times each week to met the finance team twice a week, which is significantly more than normal;
- Timeliness of sample evidence being provided – supporting documentation was not provided for all samples on a timely basis, and often there were follow up questions on the evidence provided, adding more time into the sample process and;
- Working papers – additional work was required as numerous working papers did not tie to the financial statement line item resulting in additional work.

Fees and non-audit services (2)

The fees reconcile to the financial statements as follows:

• fees per financial statements	£127,970
• 2023/24 additional fee levied (accounted for in 2024/25)	(£17,910)
• 2024/25 additional fee levied (as above)	£24,200
• total fees per above	£134,260

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, 8 Finsbury Circus, London, EC2M 7EA.

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-2024-.pdf](#)

9 Appendices

A. Communication of audit matters with those charged with governance (1)

Our communication plan	Audit Plan	Annual Audit Report
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	●	
Confirmed no reliance on internal audit	●	
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	●	●

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Annual Audit Report

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.

A. Communication of audit matters with those charged with governance (2)

Our communication plan	Audit Plan	Annual Audit Report
Views about the qualitative aspects of the organisation's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Significant findings from the audit		●
Significant matters and issue 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		●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Annual Audit Report, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

B. Action plan (1)

We set out here our recommendations for the organisation which we have identified as a result of issues identified during our 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. We have identified five recommendations in relation to financial statements and three recommendations in relation to wider scope and best value arrangements.

Assessment	Issue	Recommendations
<div>●</div> <div>High</div>	<p><u>E-Financials – Administrative Access (Financial Statements)</u></p> <p>During 2024/25, the Senior Finance Manager (Systems and Development) position was re-designated as Financial Controller. However, the individual retained administrative access within the E-Financials system. This level of access is not considered appropriate for the Financial Controller role and introduces a significant segregation of duties risk.</p> <p>As part of our journals testing, we have completed testing on journals posted by this user, and we have not identified any instances of management override of control.</p>	<p>We recommend that administrative access is removed from the Financial Controller and a review is undertaken of all activities undertaken in this role.</p> <p>Management response:</p> <p>The individual maintained oversight of the systems team but did not perform any administrative actions. The move from E-Financials to Oracle has addressed this issue.</p> <p>Responsible officer: Senior Finance Manager, Finance Systems</p> <p>Implementation date: 5 November 2025</p>

Key

- High – Significant effect on control system and financial statements
- Medium – Effect on control system and financial statements
- Low – Best practice for control systems and financial statements

B. Action plan (2)

Assessment	Issue	Recommendations
<p>●</p> <p>Low</p>	<p><u>Quarterly Audit of Weighbridge Data (Financial Statements):</u></p> <p>During our walkthrough, it was noted that within the quarterly audit of weighbridge data spreadsheet, it was not clearly documented that the check had been undertaken and the weights matched.</p> <p>Furthermore, there were columns left blank within the spreadsheet (SRP weight vs Customer weight) and it was unclear which DRNs had been selected for audit. When challenged, the Marketing & Sales Business Support Manager stated they would only complete these columns if there is a variance.</p>	<p>We recommend that the spreadsheet be filled in more detail so there is clear evidence that the control has been undertaken. If weights have been confirmed to match, then this should be stated within the quarterly audit sheet alongside comments explaining why they are satisfied the selected item passed.</p> <p>Management response: Management and sales are in the process of reviewing the self-bill audit. The recommendation above will be considered as part of the review.</p> <p>Responsible officer: Marketing and Sales Business Manager</p> <p>Implementation date: 31 March 2026</p>
<p>●</p> <p>Low</p>	<p><u>General Purchase Cards (Financial Statements):</u></p> <p>There are 248 users with a general purchase card, with expenditure across 2024/25 totalling £1,052,445 (11,005 transactions), with average card user spending £4,244.</p> <p>Card transactions are bulk posted into the GL as standard. Although individual card statements are reviewed and signed off by line managers, transactions are not being individually recorded within or reviewed line by line by finance and thus, accruals/prepayments may be being missed.</p>	<p>Being a public sector body, with the number of card users, and volume/value of transactions, we recommend that card usage is limited and staff should utilise the formal procurement routes and expense system in place.</p> <p>Where cards are utilised, we recommend that finance review the individual breakdown to identify any accruals/prepayments which should be recorded. A threshold should be determined for this review.</p> <p>Management response: A review of GPC has been underway since April 2025. This will be repeated annually.</p> <p>Responsible officer: Senior Finance Manager, Finance Systems</p> <p>Implementation date: 31 January 2026</p>

B. Action plan (3)

Assessment	Issue	Recommendations
<p>●</p> <p>Low</p>	<p><u>VME Depreciation Policy (Financial Statements):</u></p> <p>From our review of accounting policies, we identified that Forestry and Land Scotland do not have an accounting policy in place in relation to VME useful economic lives. This creates a risk of inconsistent application of depreciation methods, potential misstatement of asset values, and non-compliance with applicable accounting standards.</p>	<p>Forestry and Land Scotland should develop and formally approve an accounting policy for VME depreciation stating the depreciation method to be applied (e.g. straight-line, reducing balance) and the useful life estimates for the asset category.</p> <p>Management response: Having reviewed depreciation of VME, we agree the depreciation for this class of assets is inconsistent with the note to the ARA. We have revised this note for 24/25. From 25/26, we will develop and formally approve an accounting policy for VME. Vehicles will be separately identified and grouped accordingly for useful economic life. A review of VME depreciation has identified some assets being depreciated at reducing balance and some at straight line. If changed to straight line, the depreciation will increase by £1.2m. The VME policy will be implemented for the 25/26 Annual Report and Accounts.</p> <p>Responsible officer: Senior Financial Accountant</p> <p>Implementation date: 31 March 2026</p>
<p>●</p> <p>Low</p>	<p><u>Climate Related Financial Disclosures (Financial Statements):</u></p> <p>The Task Force on Climate Related Financial Disclosures (TCFD) issued recommended disclosures which should be adopted by public sector bodies which became effective for the 2024/25 reporting period.</p> <p>In their 2024/25 Annual Report and Accounts, Forestry and Land Scotland have not considered enhancing their climate disclosures in line with the TCFD's recommended disclosures.</p>	<p>Forestry and Land Scotland should review the recommended disclosures issued by the Task Force on Climate Related Financial Disclosures (TCFD) and incorporate into the 2025/26 Annual Report and Accounts.</p> <p>Management response: Forestry and Land Scotland should review the recommended disclosures issued by the Task Force on Climate Related Financial Disclosures (TCFD) and incorporate into the 2025/26 Annual Report and Accounts.</p> <p>Responsible officer: Head of Finance</p> <p>Implementation date: 31 March 2026</p>

B. Action plan (4)

Assessment	Issue	Recommendations
<p>●</p> <p>Low</p>	<p><u>Best value assessment arrangements (Best Value):</u></p> <p>The Accountability Report contains Forestry and Land Scotland's own assessment of the arrangements in place to secure best value. However, we noted that there is no mechanism for formal review and reporting of the arrangements to secure best value. For the third year in succession, Forestry and Land Scotland received a limited assurance audit opinion from their internal auditors. This is a governance issue, and one which management need to address in future years.</p>	<p>Forestry and Land Scotland should undertake a formal review of the best value assurance framework and complete an assessment of the organisation's arrangements to secure best value. The outcome of the assessment should be reported to the relevant Committee.</p> <p>Management response: Procurement policy and procedures are using best practice to achieve best value for money. We have also included as part of the scheme of delegation and internal control checklist. Although this has not been specifically raised as an internal audit issue, we will look at formalising a best value review for 25-26.</p> <p>Responsible officer: Head of Finance</p> <p>Implementation date: 31 March 2026</p>
<p>●</p> <p>High</p>	<p><u>Longer Term Financial Planning (Wider scope):</u></p> <p>Forestry and Land Scotland are yet to implement formalised longer-term financial planning. Currently, the only budget prepared is for 2025/26, and no multi-year scenario planning has been undertaken. Longer-term financial planning is essential for sustainability and resilience. It enables the organisation to anticipate future funding pressures, manage risks proactively, and align resources with strategic priorities. Without this, decision-making becomes reactive, increasing the risk of short-term cuts and missed opportunities for transformation. Forestry and Land Scotland have initiated the development of a comprehensive rolling three-year business and financial plan, designed to align seamlessly with the organisation's strategic objectives and priorities, including workforce and people planning.</p>	<p>The organisation should finalise the development of their formalised medium-term financial plan as planned. This plan should include scenario modelling, align with transformation objectives, and set out a roadmap for reducing dependency on Scottish Government grant funding. It should be reviewed annually to remain relevant and responsive to changing circumstances.</p> <p>Management response: Three-year annual financial plan is underway covering 2026-2029, and will be updated annually once finalised.</p> <p>Responsible officer: Head of Finance</p> <p>Implementation date: 31 March 2026</p>

B. Action plan (5)

Assessment	Issue	Recommendations
<div> <div>●</div> <div>High</div> </div>	<div> <div>Audit Recommendations (Wider scope):</div> <div> <p>For the third consecutive year, Forestry and Land Scotland received a limited assurance opinion from internal audit, highlighting ongoing weaknesses in the control environment. Internal auditors noted that several recommendations raised relate to recurring themes from previous years, and progress on implementing both internal and external audit recommendations remains limited, with a number of actions still open and need to be implemented on a timely basis.</p> </div> </div>	<div> <p>Management should prioritise the timely implementation of all agreed audit recommendations—both internal and external audit—and ensure that lessons learned and good practice are communicated across the organisation. Strengthening oversight and accountability for closing recommendations will help address weaknesses and improve governance.</p> <p>Management response:</p> <p>Significant focus is given at the Audit and Risk Committee to improving the Internal Audit Opinion and action plans have been put in place to drive consistency, develop governance process and identify / implement best practice.</p> <p>A detailed review process to monitor and report progress of management actions has been implemented. This is discussed at least quarterly by the Executive Leadership Team and ARC. In addition, a number of audit actions have agreed long-term implementation dates and/or were related to Aspen implementation. Great emphasis is placed on closing out these actions and this is measured as part of our new Balanced Scorecard as well as covered in the quarterly ELT meeting.</p> <p>The Fit For the Future programme is developing plans to achieve financial and operational sustainability and involves all staff in a way which will change behaviours and culture in such a way that contribute to achieving the recommendations put forward by Internal Audit. However, the very nature of these behavioural and cultural changes is such that they will take time but having implemented our Balanced Scorecard and Internal Audit actions review processes we will be able to understand what progress is being made in achieving these improvements.</p> <p>Responsible officer: Chief Executive Officer</p> <p>Implementation date: 31 March 2026</p> </div>

C. Follow up of previous recommendations – financial statements (1)

We identified four financial statements recommendations in the audit of Forestry and Land Scotland’s 2023/24 audit. In addition, six recommendations in relation to financial statements were also ongoing from the 2022/23 audit. From the ten recommendations followed up, the outcome is as follows:

- Two of the 2023/24 recommendations were complete and two are remain ongoing.
- Three of the 2022/23 recommendations are complete and three are remain ongoing.

The follow up of external audit recommendations, highlights that many are overdue. The required management overview of implementation. and the scrutiny of external audit recommendations needs to be improved.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>1. Land Valuation Database (2023/24 recommendation)</p> <p>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.</p> <p>Recommendation: 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.</p>	<p>This action remains ongoing, as the finance team still have access to edit the formulas used to create the forest estate.</p> <p>Management Update:</p> <p>A decision has been made to move the database to a restricted folder. This will be implemented by 30 November 2025.</p>

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of previous recommendations – financial statements (2)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>2. E-Financials (2023/24 recommendation)</p> <p>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.</p> <p>Recommendation: 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.</p>	<p>Oracle implementation will ensure Forestry and Land Scotland have enhanced controls around security access, with specific roles allocated within the system from 5th November 2025. On this basis, this recommendation has been closed.</p>

C. Follow up of previous recommendations – financial statements (3)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>3. Accrued Income (2023/24 recommendation)</p> <p>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.</p> <p>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.</p> <p>Recommendation: 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.</p> <p>Additionally, Forestry and Land Scotland should consider succession planning, to ensure there are sufficiently prepared in terms of unexpected leave.</p>	<p>This action remains ongoing, although Forestry and Land Scotland have made progress, including the introduction of regular meetings between the finance and commercial teams to review estimates v actuals.</p> <p>Forestry and Land Scotland are still reliant on one individual to complete the accrued income calculations, and no detailed review of these calculations are undertaken.</p> <p>Furthermore, we identified that there has been limited focus on the calculation of the hydro accrual in comparison to the wind accrual, due to limited resource. The accrual is not material at present, but at this experiences the planned growth in future years, this will become a material issue.</p> <p>Management Update:</p> <p>Significant progress has been made. We will review the outcomes in the internal audit report when available. Regular engagement is in place between Finance and the Renewable team. In addition, quarterly updates are being presented to the Executive Leadership Team.</p>

C. Follow up of previous recommendations – financial statements (4)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>4. Fixed Asset Registers (2023/24 recommendation)</p> <p>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).</p> <p>Recommendation: 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.</p>	<p>Oracle was implemented on 5 November 2025 and Forestry and Land Scotland are utilising the Fixed Asset module therefore, this recommendation has been closed.</p>
X	<p>5. Audit Evidence and Working Papers to support the Annual Accounts Process (2022/23 recommendation)</p> <p>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.</p> <p>Recommendation: Management should ensure that sufficient supporting audit evidence is available to support the balances disclosed in the accounts.</p>	<p>This action remains ongoing, with a number of issues remaining with working papers being at the correct level for audit, and easily reconciling back to the financial statements (e.g. leases, contract income, trade receivables and trade payables and SRP uninvoiced).</p> <p>Management Update:</p> <p>FLS will engage with Grant Thornton to improve this and FLS will review and agree appropriate actions to resolve.</p>

C. Follow up of previous recommendations – financial statements (5)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>6. Journals – Users, Dates, Names and Authorisation (2022/23 recommendation)</p> <p>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, including members of senior management</p> <p>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.</p> <p>A number of journals are posted using a journals template, created by an individual who no longer works at the organisation. The system logs these as being input by the previous employee, even though this client account is no longer active.</p> <p>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</p>	<p>This action remains ongoing, with 312 individuals still having the ability to post journals within the system. During 2024/25, 46 individual users posted manual journals. The issue with regards to the journal template showing a previous client user remains. We did not identify any journals posted by senior management during the financial year.</p> <p>Management Update:</p> <p>Oracle implementation will ensure FLS have formalised and automated journal authorisation from 5th November 2025.</p> <p>Oracle will ensure FLS have a list of those users with the ability to post journals. This list will be reviewed on a regular basis.</p>

C. Follow up of previous recommendations – financial statements (6)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>7. Year-End Transactions (2022/23 recommendation)</p> <p>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.</p> <p>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.</p>	<p>From our testing, we identified one error within our testing relating to cut-off, where an item relating to the previous financial year was not accrued for. However, as this error was isolated and below trivial, no further reporting is required, As such, we deem this recommendation to be closed.</p>
✓	<p>8. Review of Valuers Reports for Reasonableness (2022/23 recommendation)</p> <p>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.</p> <p>Recommendation: Management should ensure that all external expert outputs are properly reviewed, and procedures implemented to identify any significant errors arising.</p>	<p>This action has been closed – no issues were identified from our work in relation to valuations.</p>

C. Follow up of previous recommendations – financial statements (7)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>9. Accounts Review Comments (2022/23 recommendation)</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>This action remains ongoing. The audit team provided management with accounts review comments on 22 July 2025, with management responses received on 5 September 2025 in advance of our year-end fieldwork commencing. However, the returned file from management was incomplete, which resulted in additional follow up being required from the audit team.</p> <p>Management Update:</p> <p>The return to Grant Thornton was in line with the agreed timetable. FLS will engage with Grant Thornton to review the 24/25 audit and agree actions to address any points raised.</p>

C. Follow up of previous recommendations – financial statements (8)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>10. Holiday and Flexi Pay Accrual (2022/23 recommendation)</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>This action is closed. Holidays are recorded in iTrent. There is an automatic maximum carry forward of 10 days. At year-end, an iTrent report is sent to cost centre managers to review and adjust if more than 10 days should be carried forward. The adjusted iTrent file is used to calculate the holiday accrual.</p> <p>In FLS, flexi time is recorded in spreadsheets and reviewed by line managers. At year-end, cost centre managers send their flexi balances to HR to calculate the accrual. The approach is consistent across FLS. We have identified no issues within our testing performed during 2024/25 therefore, this action has been closed.</p>

C. Follow up of previous recommendations – wider scope and best value (1)

We identified four wider scope recommendations in the audit of Forestry and Land Scotland’s 2023/24 wider scope audit. In addition, two recommendations in relation to wider scope were also ongoing from the 2022/23 audit. From the six recommendations followed up, the outcome is as follows:

- Two 2023/24 recommendations were closed whilst two recommendations remain ongoing.
- One 2022/23 recommendation was closed whilst one recommendation remain ongoing.

The follow up of external audit recommendations, highlights that many are overdue. The required management overview of implementation. and the scrutiny of external audit recommendations needs to be improved.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>1. Internal Audit – Limited Assurance Opinion (2023/24 recommendation)</p> <p>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.</p> <p>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.</p>	<p>This action has been closed, and superseded by a new recommendation raised within Appendix B of our Report.</p>

C. Follow up of previous recommendations – wider scope and best value (2)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>2. Internal and external audit recommendations (2023/24 recommendation)</p> <p>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</p> <p>Recommendation: Management should seek to implement all audit recommendations on a timely basis.</p>	<p>This action has been closed, and superseded by a new recommendation raised within Appendix B of our Report.</p>
X	<p>3. Financial reporting in the Annual Report and Accounts (2023/24 recommendation)</p> <p>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.</p> <p>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.</p>	<p>This action remains ongoing. 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.</p> <p>Management Update:</p> <p>FLS will review and put in place for 2025-26 financial statements.</p>

C. Follow up of previous recommendations – wider scope and best value (3)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>4. Workforce Planning (2023/24 recommendation)</p> <p>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.</p> <p>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.</p>	<p>This action remains ongoing, with management introducing a number of actions with regards to developing an organisational workforce plan.</p> <p>Management Update:</p> <p>The workforce planning (WFP) piece has evolved and resource has been put into developing organisational level WFP and workforce priorities have been identified and have been discussed with ELT. There is a need to define the medium and long-term outlook for organisation and assess skill gaps. This will be picked up as part of the three-year business plan process. This is moving forward with more specific work around the organisational workforce planning exercise currently taking place.</p>

C. Follow up of previous recommendations – wider scope and best value (4)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>5. Financial Sustainability – Transformation Plans (2022/23 recommendation)</p> <p>Forestry and Land Scotland are heavily reliant on cash reserves in future years in order to eliminate deficits predicted for 2023/24 and beyond.</p> <p>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.</p>	<p>This action remains ongoing. Forestry and Land Scotland must use the Transformation Programme to identify new approaches of working and develop a financially sustainable business model over the longer-term.</p> <p>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.</p> <p>Management Update:</p> <p>Significant progress has been made in establishing a programme management office along with a plan to deliver Fit for the Future. Through the 3 year business planning process we will reflect efficiencies that will crystallise from Fit for the Future which will both deliver financial and operational sustainability.</p>

C. Follow up of previous recommendations – wider scope and best value (5)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>6. Financial Sustainability – Reserves (2022/23 recommendation)</p> <p>There is a risk that continued reliance on reserves to bridge funding gaps will create financial sustainability issues for Forestry and Land Scotland.</p> <p>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.</p> <p>We appreciate management's response and understand the reserves position forms part of the annual budget and longer-term financial planning process.</p>	<p>This action has been closed on the basis that a reserves overview is provided as part of the monthly finance update to ELT. The three-year annual financial plan, which is in development will also include a review of reserves and will be updated annually.</p>



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