

# Forestry Commission Scotland

Report on the 2005/2006 Audit

October 2006



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# Executive Summary

## Introduction

In 2005-06 we audited the financial statements of the Forestry Commission Scotland (FCS) and looked at aspects of performance management and governance. This report sets out our key findings.

## Financial Statements

We have given an unqualified opinion on the financial statements of the Forestry Commission for 2005-06.

The Statement of Parliamentary Supply shows a net resource outturn of £69.1 million with a net cash requirement of £49.9 million. These were well within the budgets set by the Scottish parliament of £70.6 million and £52 million respectively.

At the planning stage we identified seven main audit risks which informed our audit procedures. From our audit work we can conclude that these risks are being satisfactorily managed by FCS.

## Governance

FCS's corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statement on Internal Control. We have also found the work of the internal audit service to be satisfactory and continue to place formal reliance on its work.

## Performance Management

During 2005-06 we completed a baseline Best Value analysis of FCS's management arrangements for achieving Best Value. We found that although FCS's procedures were under development, satisfactory progress towards achieving Best Value was being made.

I would like to record my thanks to management and staff for their co-operation and assistance.

Peter Tait CPFA, Assistant Director, 12 October 2006



# Introduction

## Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of FCS. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was agreed with Forestry Commission in April 2006. This plan described the work we planned to carry out on financial statements, governance and performance.
2. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all the weaknesses which may exist. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to FCS. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
3. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Forestry Commission during the course of our appointment. This report will be submitted to the Auditor General for Scotland and will be published on our website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Outcome on Risks Identified in the Audit Risk Analysis and Plan

4. A key feature of our audit approach is the need to form a comprehensive understanding of the client's business in order to appreciate the risks arising from that business and affecting the achievement of its objectives. Seven risks were identified at the planning stage and listed in the ARAP:
  - Faster closing for the preparation and completion of the financial statements
  - Multiple locations with autonomy from the National Office
  - Valuation of the Forest Estate involving the use of complex systems
  - Shared Services – one financial system serving six organisations
  - Single main bank account and complex reconciliation procedures
  - Corporate governance arrangements – clarification of roles and responsibilities
  - Grant payment schemes (including Woodland Grants) funded by EAGGF.



5. The outcome for each risk against planned audit activity is summarised at Appendix A. We can conclude from the results of our work on these risk areas that they are being satisfactorily managed by FCS. A number of these areas are described in greater detail in the body of the report.

## Prior Period Follow Up

6. Three issues were identified in our Report on the 2004-05 Audit. We are satisfied that our recommendations have been fully implemented in two instances. The work on Corporate Governance has taken longer to conclude than anticipated and although key changes have now been endorsed these will not be implemented until 2006-07.

## Management Action

7. Audit recommendations, together with management comments, on those areas where further improvements could be achieved are included in the action plan at Appendix B of this report.



# Financial Statements

## Our Responsibilities

8. We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers, of the state of affairs of the Forestry Commission Scotland as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended
- they and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Forestry Act 1967 and directions made thereunder by the Scottish Ministers
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

9. We also review the Statement on Internal Control by:

- considering compliance with Scottish Executive guidance
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control
- assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

## Overall Conclusion

10. We have given an unqualified opinion on the financial statements of FCS for 2005-06. We are able to conclude that the financial statements of FCS give a true and fair view of the financial position for the period from 1 April 2005 to 31 March 2006 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

11. Following discussion with the Director Finance and Country Finance Director, a date of 29 May 2006 was agreed for the provision of the accounts for audit. Accordingly, audit work was scheduled to achieve a certification date that would permit the laying of the accounts before the Scottish Parliament by the end of July. Accounts were duly submitted on the agreed date and the completion timetable achieved.





## Financial Performance

12. FCS's Statement of Parliamentary Supply shows a net resource outturn of £69.1 million, a favourable variance of £1.5 million against the estimate of £70.6 million. The financial statements show a net cash requirement of £49.9 million against an estimate of £52 million resulting in a favourable variance of £2.1 million.
13. The operating Cost Statement shows a net operating cost of £66.2 million. The most significant elements of the operating costs were the programme expenditure on grants paid to woodland owners of £19.7 million, the cost of capital of £16 million and the deficit resource funding of Forest Enterprise Scotland (FES) of £27.8 million.

## Statement on Internal Control

14. A draft Statement on Internal Control was presented to the Scotland Audit Committee on 9 June 2006 and signed by the Chief Executive on 7 July 2006. This set out the arrangements operated for risk identification and review, management of identified risks and assurance of effectiveness.
15. We are satisfied that the Statement complies with Scottish Executive guidance, the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and the contents of the Statement are not inconsistent with the information emerging from our normal audit work.

## ISA 260: Communication of Audit Matters to Those Charged with Governance

16. My responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260 and outcomes against the requirements of the Standard were reported in a letter to the Accountable Officer on 6 July 2006.
17. As part of the audit process we identified a number of accounting adjustments that were required:
  - increase in fixed assets of £0.7 million to reflect the valuation of surplus assets at Open Market Value
  - reduction of debtors by £0.2 million due to double-counting WGS debtors, this was also raised by audit in 2004-05
  - increase in creditors of £0.15 million.



18. A number of issues relating to the valuation of the forest estate were identified by Finance and Accountancy Services (FAS):
- inclusion of £14.7 million in the current year valuation relating to land areas omitted from the 2004-05 valuation in error
  - increase in land valuation of £1.1 million due to the omission of land from the 2005-06 base valuation
  - increase in the value of the estate of £0.6 million relating to an omission from the original 2005-06 valuation.
19. In addition there were a small number of immaterial adjustments and presentational issues. All adjustments were reflected in the audited version of the financial statements.

## Issues Arising

20. We would like to draw attention to the following issues arising from our audit of the financial statements:

### *Accounts preparation procedures*

- in general, FAS have made further progress in terms of the quality of supporting information for completion of the financial statements audit but there is scope for further improvement in a number of areas, particularly the valuation of the forest estate and completion of VAT returns.

**Action point 1**

### *Faster closing*

- although the final accounts timetable was met, this needs to allow more time for detailed review by management. There was some evidence to suggest that this had not been carried out in depth for all balance sheet areas with a number of significant errors identified by audit, some of which had been raised by audit in the previous year.

**Action point 2**

### *Payment controls and standing data*

- we found that FAS has not yet fully resolved issues reported in 2004-05 relating to the integrity of standing information on the accounts payable system (e-financials). Controls over supplier details remain inadequate and there are still no procedures for checking the authenticity of suppliers.

**Action point 3**



# Governance

## Introduction

21. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of an organisation. This section sets out the main findings arising from our review of FCS's corporate governance as it relates to:

- fraud prevention and detection arrangements
- systems of internal control
- review of internal audit.

## Overall Conclusion

22. During our audit we reviewed the governance systems operating at FCS. In general, we are content that they are soundly based. I note that progress made in implementing the action point from our 2004-05 audit has taken longer than envisaged to conclude due to the need to complete the review of the structure, interactions and functioning of the various decision-making boards and committees at the GB and country level, prior to drawing up proposals for a revised Audit Committee structure. As the key changes have now been endorsed these should be implemented as a matter of priority.

## Fraud Prevention and Detection Arrangements

23. FCS's arrangements for preventing and detecting fraud and corruption were assessed during the audit and found to be satisfactory. No frauds were identified by FCS in 2005-06.

## Systems of Internal Control

### *Payment controls, and budget monitoring and reporting*

- during our interim audit we reviewed and tested the operation of key system controls for payment processing within Finance at Silvan House. Although we found that controls appeared to be operating satisfactorily there are weaknesses in relation to the procedures for creating and amending supplier details (see action point 3).
- we reviewed a sample of Budget Monitoring outputs for a number of cost centres, including shared services, and we are satisfied that income and expenditure budgets are monitored regularly and that variances from budget are investigated at an appropriate level with corrective action taken where necessary.



### *European Agricultural Guidance & Guarantee Fund (EAGGF)*

- in order to provide assurance for both the audit of the Forestry Commission's accounts and the EAGGF audit we undertook interim testing of controls for a sample of grants paid to woodland owners to ensure compliance with European co-financing guidance. We are satisfied that controls in place operated satisfactorily and our interim findings have been reported separately to management. The final results of this work will be reported separately to the European Commission in line with the standard contract for the EAGGF audit.

## Review of Internal Audit

24. FCS recognises that internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. To maximise the reliance that external audit can place on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
25. Internal audit is provided by an in-house team. From our review of internal audit arrangements we are pleased to confirm that we placed reliance on their work in a number of areas during 2005-06, as was anticipated in our audit plans.
26. We planned to place formal reliance on the work of internal audit, in terms of International Standard on Auditing 610 on the reviews of:
  - corporate governance and risk management
  - Purchase Order Processing (POP)
  - travel and subsistence – Employee Expenses Model (EEM)
  - accounting inspections (follow-up)
  - Scottish Forestry Grant Scheme/Woodland Grant Scheme.
27. We reviewed the reports and files and are satisfied that none of the observations and related risks precluded planned assurance from being taken for our financial statements audit. The only matter of concern, as reported to the Accountable Officer on 6 July, under International Standard on Auditing 260, was that the reports and files were not all fully concluded with some only being made available for review as late as 5 July.

**Action point 4**



28. The Head of Internal Audit's annual assurance statement to the Chief Executive on 9 June 2006 concludes that the overall opinion is that the governance and internal control within FCS continues to provide substantial assurance that material risks to the achievement of objectives are identified and adequately managed.



# Performance Management

## Introduction

29. This section covers our assessment of the way in which FCS secures value for money in the use of its resources. This year we focussed on Best Value.

## Best Value

30. There is no statutory duty of Best Value in the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS). Instead, the Scottish Executive issued high level guidance in May 2003, followed by more detailed draft secondary guidance in August 2003. This duty can be described as:

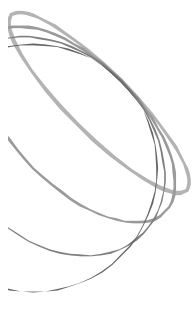
- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost)
- to have regard to economy, efficiency and effectiveness, and the equal opportunity requirements
- to contribute to the achievement of sustainable development.

31. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, Ministers do wish to encourage and embed the principles of Best Value across the wider public sector and revised guidance was issued in May 2006.

32. For 2005-06 Audit Scotland reviewed how well advanced arrangements are in place by public bodies across the central government sector to demonstrate Best Value, and to identify areas of good practice. As part of this review we completed a Best Value analysis to establish baseline information on the management arrangements in place within FCS. The overall aim of this analysis was to establish the organisation's arrangements for taking forward the Best Value agenda and demonstrating continuous improvement.

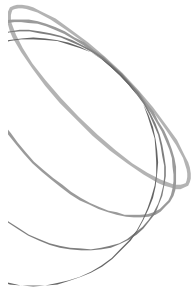
33. Overall, we assessed FCS's arrangements to secure Best Value as being under development but indicating satisfactory progress. We note that during 2006-07 FCS will be producing a Sustainable Development Action Plan.

34. The results of our review across the wider public sector are currently under evaluation and will be published by Audit Scotland during 2006.



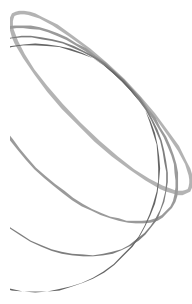
# Appendix A: Outcome on Risks Identified in the Audit Risk Analysis and Plan

Risk	Management assurances	Planned audit action	Outcome
<p><b>Faster Closing</b></p> <p>1. HM Treasury has issued instructions to all central government bodies in connection with the Faster Closing agenda.</p> <p>With respect to the Forestry Commission, this means bringing forward the accounts preparation and completion timetable significantly in this financial year. Forestry Commission Scotland, are required to comply with the Faster Closing agenda.</p> <p>FCS need to ensure that systems and controls are in place to support a shorter timescale, including appropriate management review of draft financial statements prior to submission for audit.</p>	<p>FC reorganised the Finance and Accounting Services (FAS) team in Silvan House and the Business Accounting Branch will provide specialist advice and services to FCS.</p> <p>FAS updated and reissued the Money Matters Booklet 9 as "In year accounting: Faster Closing" and held a finance seminar in January to provide detailed advice to key staff involved in accounts preparation and year end procedures.</p> <p>FAS will continue to improve the quality of account schedules prepared in support of disclosures in the financial statements.</p>	<p>To gain assurance on the risks relating to faster closing we will liaise closely with management to identify what steps FAS have taken to implement early closure while maintaining high quality of information.</p> <p>Meetings will be held with FAS to agree a timetable for presentation of draft accounts to Audit Scotland, standard of supporting documentation required and scheduling of audit work to ensure deadlines are met.</p>	<p><i>Planned completion: 31 July 2006</i> <i>Actual completion: 14 July 2006</i></p> <p>The agreed timetable was met and overall we noted an improvement in the accounts preparation process. We were presented with a good quality draft report which was supported by adequate working papers.</p> <p>There is scope to further improve the process, particularly to allow sufficient time for detailed review by senior management.</p> <p>See <i>paragraph 20</i>.</p>



Risk	Management assurances	Planned audit action	Outcome
<p><b>Multi-location organisation</b></p> <p>2. FCS is a multi-location organisation with local offices (Conservancies) which have considerable autonomy from the National Office. For example, Conservancies and cost centres are responsible for raising purchase orders, authorising invoices for payment, and input to e-financials. Delegated authority over a large number of cost centres increases the risk of control failures, errors and fraud within the organisation as differences may arise in the exercise of controls across cost centres.</p>	<p>Approval of expenditure commitments above pre determined limits are reserved to the management board and Director Scotland. Delegated authority limits are in operation for expenditure below these limits. In addition there are mitigating controls in place to the extent that payment processing and batch controls are carried out centrally by Finance at Silvan House and there are mandatory procedures to ensure segregation of duties in all cost centres.</p> <p>FAS has established a sound system for budget allocation and monitoring that requires all cost centre managers to provide explanations for variations in expenditure and income from agreed budgets. Budgets are also monitored at a high level and senior management receive monthly updates of progress against budgets.</p> <p>Internal Audit and Accounting Inspectors visit cost centres and review the operation of controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>review the minutes of the meetings of the Commissioners, Executive Board and National Committees;</li> <li>review and test the operation of key systems controls within Finance at Silvan House;</li> <li>review a sample of Budget Monitoring and Reporting for a number of cost centres including shared services; and</li> <li>review the results of Accounting Inspection visits and consider to what extent problems identified during these visits have been addressed and any impact for the financial statements.</li> </ul> <p>We will review the work of internal audit for those areas where we plan to take assurance.</p>	<p>The results of our planned work were generally satisfactory apart from two exceptions. See <i>paragraphs 20 and 27</i>.</p> <p>In a number of instances, our review of internal audit work has identified additional areas for improvement. These have been notified separately to management.</p>

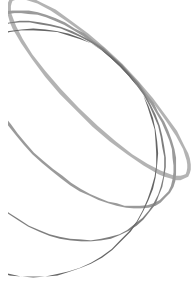




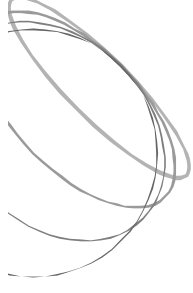
Risk	Management assurances	Planned audit action	Outcome
<p><b>Valuation of the forest estate</b></p> <p>3. Accounting for the forest estate involves a number of complex systems that have to be brought together at the year end in order to determine the balance sheet values. The complexity of the processes and linkages involved in valuation of the estate create a significant risk to the accounts preparation process.</p> <p>The Sub Compartment Database (SCDB) is primarily an operational management system but it is also the key information source for the valuation of the forest estate.</p> <p>The Operational Support Unit, (OSU), which also provides services to Forestry Commission England, Wales and the Enterprise Agencies, has overall responsibility for maintenance of the SCDB and for developing and issuing instructions and guidance. This guidance is mainly set out in "The Survey Handbook" ..</p>	<p>In addition to the Survey Handbook, Operational Support Unit and FAS will issue detailed instructions, timetables and target dates that specify when forest districts are required to input all amendments and updates to the SCDB. A Project Group has been established to look at ways to ensure that the SCDB is updated promptly.</p> <p>FAS and OSU will complete a reconciliation between the information produced by the SCDB and independent information held on the Deeds Management System (DMS).</p> <p>A project group has been set up to improve the systems for accounting for the forest estate with the aim of producing an updated Survey Handbook for 2006-07.</p> <p>Director Finance is preparing a paper on the Forest Estate Valuation which is due for presentation to the Executive Board in April 2006. The timing is such that this is likely to impact on the 2006-07 financial statements.</p>	<p>As part of our audit approach for the Agency's accounts, we have planned visits to the forest districts and will review local procedures for updating the SCDB and confirm that it has been updated for a sample of key operational activities.</p> <p>We will review compliance with year end instructions to confirm that the required information is available to FAS to complete the revaluation exercise.</p> <p>We will review the process and controls in place to reconcile the supporting records and test significant movements. A sample of 2005-06 additions and disposals will be selected to ensure that they are correctly included or excluded from the SCDB extract that is used to produce the forest estate account figure.</p> <p>We will liaise with management to monitor progress on updating the Survey Handbook and the forest estate valuation exercise.</p>	<p>We were generally satisfied that adequate procedures were in place for amending and updating the SCDB. However, as responsibility for the revaluation exercise rests with a single individual there is no independent review process.</p> <p>See <i>paragraph 20</i>.</p> <p>A number of significant errors were identified in the revaluation exercise this year.</p> <p>See <i>paragraphs 17 &amp; 18</i>.</p> <p>The Director Finance presented a paper on the revaluation of the forest estate to the Executive Board in April 2006. This sought guidance on the principles to be followed with an implementation date of 2007-08.</p>



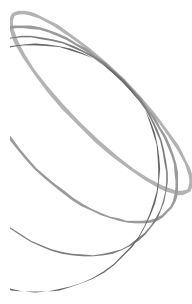
Risk	Management assurances	Planned audit action	Outcome
<p><b>Shared services</b></p> <p>4. The Forestry Commission has one accounting system (e-financials), which services six different organisations, which each produce annual accounts.</p> <p>In addition, there are a number of business units and shared services that do not prepare accounts, but whose costs are recharged to the six accounts through internal charges based on Service Level Agreements.</p> <p>There is a risk that errors may arise in the FCS account as a result of errors in allocating costs or accruals to the incorrect account.</p>	<p>The internal charges regime has been in place for a number of years and is well established and understood by users in each entity and shared service.</p> <p>The system incorporates Service Level Agreements that set out agreed charges for each financial period. All shared service charges are agreed at cost centre level and the budget control system is used to monitor progress against budgets.</p> <p>The system is monitored by Shared Service Boards comprising “intelligent buyers” and service providers.</p>	<p>We will seek confirmation that signed and up-to date Service Level Agreements are in place for all shared services and consider consistency with previous years.</p>	<p>We reviewed the management of Service Level Agreements and the associated charging mechanisms.</p> <p>We were satisfied that the systems in place are robust and that charges by shared service boards are made on a reasonable basis.</p>



Risk	Management assurances	Planned audit action	Outcome
<p><b>Single main bank account</b></p> <p>5. There is one main bank account for the Forestry Commission that services all six accounts. The complex nature of the bank reconciliation arrangements increases the risk that FC will incorrectly allocate the year-end balance between the accounts. FAS were unable to complete the bank reconciliation for March 2005 within the agreed timetable and the audit was delayed to allow additional time for completion and Internal Audit review prior to submission to external audit.</p>	<p>FAS have revised the reconciliation process and the supporting documentation to enable timelier reporting. Supporting schedules are now prepared to provide documentary evidence in support of all adjusting balances and items listed in the reconciliation report. Director Finance and Head of Finance Systems meet regularly to confirm that bank reconciliations have been completed and are up-to-date.</p>	<p>We will review the year-end bank reconciliation for completeness and determine whether the year-end balance has been correctly apportioned to each account. In addition, we will undertake substantive testing of a sample of reconciling items.</p>	<p>The year end bank reconciliation papers were presented for audit in line with the agreed timetable. We were able to confirm that the reconciliation was complete and the general ledger was reconciled to all bank account balances. We were able to confirm the reconciling items to supporting documents.</p>



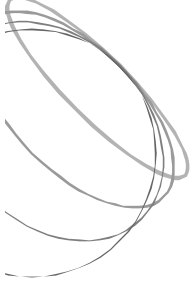
Risk	Management assurances	Planned audit action	Outcome
<p><b>Corporate governance</b></p> <p>6. Since implementation of the Forestry Devolution Review in 2003, corporate governance arrangements across the whole of the Forestry Commission have undergone a period of on-going development and adaptation. The most recent being a decision by The Board of Commissioners, in December 2005, that the Terms of Reference for the Board of Commissioners, Executive Board and National Committees required to be rewritten and roles and responsibilities clarified. It was also agreed that the Audit Committee should be split at country level. These new arrangements will not take effect until 2006-07.</p>	<p>Internal Audit have issued a draft report to Director Finance on the proposed composition and role of the new Audit Committees. In effect these will be the existing Internal Control Committees restructured to take account of AC Handbook Guidance.</p> <p>Corporate and Forestry Support are in the process of finalising the report into the Board/Committee structure for the whole of Forestry Commission including revised Terms of Reference which will take effect from April 2006.</p>	<p>We will liaise with Internal Audit and Corporate and Forestry Support staff and review the results of their findings to inform our opinion on the adequacy of corporate governance and audit committee arrangements.</p>	<p>The review of the structure, interactions and functioning of the various FC decision-making boards/committees has been concluded. Revised terms of reference, designed to more clearly set out the responsibilities and relationships of the main Board, the Executive Board and National Committees were endorsed by the Board of Commissioners in June 2006.</p> <p>Proposals for the full structure and functioning of the revised Audit Committee arrangements, at the Country and GB level, were agreed in September 2006.</p> <p>For 2005-06, a special meeting of the Internal Control Committee was held in June 2006 to consider the draft accounts and the Head of Internal Audit's annual report.</p> <p>See paragraphs 22 &amp; 28.</p>



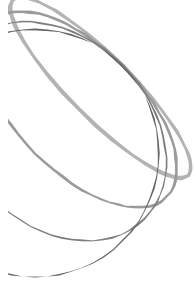
Risk	Management assurances	Planned audit action	Outcome
<p><b>EAGGF</b></p> <p>7. FCS programme expenditure includes grants paid to private woodland owners under the EAGGF funded Woodland Grant (WGS) and Scottish Forestry Grants Schemes (SFGS). The requirements of the schemes are relatively stringent and complicated which increase the risk that claims could be made for an incorrect amount or could be paid to inappropriate claimants and, therefore, overpaid.</p> <p>There is a risk that failure to comply with relevant guidance may lead to disallowance of EAGGF co-financing with consequential impact on FCS resources.</p>	<p>Internal Audit reviewed the operation of controls in the SFGS system in 2005 and were able to give substantial assurance that controls were adequate and operated satisfactorily.</p> <p>They will carry out a detailed review of GLADE in 2006 before the revised SFGS is launched.</p> <p>Extensive guidance is available to all staff on the FC Intranet and relevant training has been provided to all personnel.</p> <p>G&amp;L performs the paying agency functions as required under the EC's accreditation criteria and they have established a control framework that incorporates the use of detailed checklist to record key checks carried out at all stages in the administration and management of WGS/SFGS.</p>	<p>We have identified the key operational controls in place for the management and administration of the SFGS and we plan to test these in conjunction with our separate audit of EAGGF co-financing.</p> <p>As the Certifying Body we will review the controls in place over these transactions and test a sample of transactions to confirm that they are regular and are accurately recorded.</p>	<p>We were satisfied that the controls in place operated satisfactorily across the period.</p> <p>Our interim Management Letter noted a number of minor exceptions where conservancies did not fully comply with procedures.</p>

# Appendix B: Action Plan: Recommendations for Further Improvements

Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
1	20	<p><b>Accounts preparation procedures</b></p> <p>FAS identified a number of issues relating to the valuation of the forest estate (see paragraph 18) as well as the submission of an incorrect VAT return to HM Revenue and Customs in October 2005.</p> <p>Under the current arrangements, these areas are the responsibility of a senior member of staff with specialist knowledge and not subject to independent review.</p> <p>The complexity of the forest estate valuation process increases the risk of error and although these errors were eventually identified by FAS best practice would be a system whereby key procedures were subject to independent review at a senior level. Reliance on specialist knowledge of a single individual also increases the risk for business continuity.</p> <p><i>We recommend that FC review the current arrangements with a view to allowing greater delegation. This would enable existing staff with specialist knowledge to undertake independent review.</i></p>	<p>A comprehensive report on the valuation process and its outcomes was presented to Finance Directors in FC and FE Scotland for review. This included analyses of the valuation and was key in providing assurance to country staff that the revaluation had been carried out appropriately. This process shall be repeated for 2006-07. Consideration shall be given to holding a formal review meeting.</p> <p>It is planned to recruit an additional resource within FAS to assist with the valuation issues. At the same time, FAS staff have begun a programme of visits to country finance and planning teams to increase awareness of fixed asset accounting.</p>	Ian Rae	31 March 2007

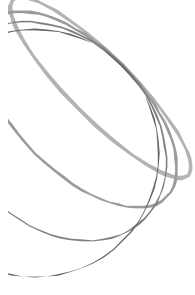


Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
2	20	<p><b>Faster closing</b></p> <p>In accordance with the faster closing agenda, the timetable for completion of the accounts was brought forward significantly in 2005-06. This was a challenging process and in our view there is scope for further improvement to ensure efficient procedures are embedded in the system.</p> <p><i>We recommend that the account preparation process should allow sufficient time for detailed review by management to minimise the risk of significant errors requiring adjustment.</i></p>	<p>In addition to ongoing management review throughout the year as part of our Business Monitoring process we will build in to our accounts timetable sufficient time for management review of accounting schedules before presenting the final account.</p>	Iain Yeoman	November 2006

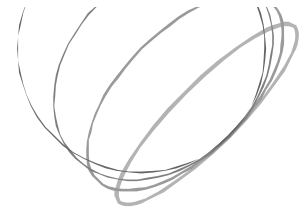


Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
3	20	<p><b>Payment controls and standing data</b></p> <p>Controls over amending and creating supplier details remain inadequate and there are still no procedures for checking the authenticity of suppliers. These issues were raised in our Management Letter on the 2004-05 audit.</p> <p>Revised procedures were implemented on a pilot basis and we were informed that these proved impractical but that alternative arrangements would be in place by June 2006.</p> <p><i>We recommend that revised guidance to improve controls over supplier data should be implemented as a matter of priority, if these have not already been put in place.</i></p>	<p>The relevant controls will be in place as part of our E-Fin upgrade due for implementation early 2007. A request form for supplier set up and change will be available to end users to requisition new suppliers and changes to information held. This form will be directed to country finance teams who will review the current database and either agree or reject the request. This will exercise the control required.</p>	Derek Giifillan	March 2007





Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
4	27	<p><b>Internal Audit reports</b></p> <p>Our audit approach for 2005-06 identified a number of areas where we planned to place formal reliance on the work of internal audit.</p> <p>The HIA's annual report to the Accountable Officer dated 9 June 2006 noted that a number of assignments were not fully concluded.</p> <p>In our view, there is a risk that late completion of the internal audit programme increases the risk that control weaknesses are not identified sufficiently early to inform the HIA's overall assurance opinion. Also, there may be insufficient time for inclusion of management's response to show that any weaknesses are being addressed.</p> <p><i>We recommend that, given faster closing and the increasing pressure this will place on internal audit, consideration should be given to prioritising the workload and staffing levels so that key risk areas are completed earlier in the annual audit programme.</i></p>	<p>Agreed.</p> <p>Prioritisation of assignments and associated resource is standard practice but this has been reviewed further in 2006/07, based on last year's experience, to ensure that relevant key risk areas are concluded earlier in order to better meet faster closing requirements.</p> <p>Some planned assignments ran late as work had been rescheduled earlier in the year to accommodate the more urgent review of bank reconciliations required to complete the prior year accounts, as discussed with management and external audit, and agreed by the Internal Control Committee. Other one-off issues in 2005/06 also impacted on ability to fully conclude assignments.</p> <p>However, as noted in the HIA report, in all outstanding cases sufficient work had been done to properly inform the annual overall assurance opinion."</p>	Liz Holmes	ongoing



# Appendix C: Auditor General for Scotland published reports

Accounts Commission and Auditor General for Scotland

*Community planning: an initial review (published 16 June 2006)*

Community planning partnerships have made progress but need to do more to show how their work is improving public services. The report also says that their complex remit makes it difficult for them to achieve their aims and calls on the Executive to support community planning more effectively.

Accounts Commission and Auditor General for Scotland

*No hiding place: the National Fraud Initiative in Scotland (published 17 May 2006)*

Scotland's councils have worked with other public bodies to identify £15m worth of fraud and errors in a national detection exercise.

Auditor General for Scotland

*Scottish Further Education Funding Council: A progress report (published 26 January 2006)*

The Scottish Further and Higher Education Funding Council (Funding Council) is making progress on a number of fronts, according to a report published today by the Auditor General for Scotland.

Auditor General for Scotland

*Leadership development. How Government Works (published 17 November 2005)*

Scotland's public sector has good examples of investment in leadership but many individual organisations do not have clear policies and most are unable to link the spending to improvements in their performance. Public bodies need to do more to track the £5m they invest each year in leadership development and make sure it results in better managed organisations and better public services, says Audit Scotland.

Auditor General for Scotland

*Scottish Executive: supporting new initiatives. How Government Works (published 10 November 2005)*

Last year the Scottish Executive launched new initiatives amounting to £1.4 billion. The management of these projects is generally sound, but making changes could help to improve control of the funding and allow better assessment of whether the money is helping to achieve policy aims.



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