

Forestry Commission Scotland & Forest Enterprise Scotland

Annual report on the 2010/11 audit



Prepared for Forestry Commission Scotland, Forest Enterprise Scotland and the
Auditor General for Scotland
November 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key Messages	4
2010/11	4
Outlook.....	4
Introduction	5
Financial statements	6
Audit opinion	6
Accounting issues.....	6
Outlook.....	8
Financial position	9
Financial results 2010/11.....	9
Capital investment and performance 2010/11	10
Financial planning to support priority setting and cost reductions	11
Outlook.....	11
Governance and accountability	13
Corporate governance	13
Prevention and detection of fraud and irregularities	14
Standards of conduct and arrangements for the prevention/ detection of bribery and corruption	14
Best Value, use of resources and performance	15
Management arrangements	15
Overview of performance in 2010/11	16
National performance reports	17
Appendix A: audit reports	19
Appendix B: action plan	20

Key Messages

2010/11

We have given an unqualified opinion on the financial statements of Forestry Commission Scotland (FCS) and Forest Enterprise Scotland (FES) for 2010/11.

FCS Statement of Parliamentary Supply for 2010/11 shows a net resource of £9.6 million with a net cash requirement of £68.9 million. These were within the budgets set by the Scottish Parliament of £83.4 million and £77.6 million respectively. FCS drew down £74.5 million against the cash estimate during the year and the cash balance of £5.6 million will be repaid to the Scottish Government during 2011/12.

FCS Statement of Comprehensive Net Income (SoCNI) discloses a gain on revaluation of biological assets of £107.8 million. Under IAS 41, increases in the value of biological assets are recognised as income in the Statement, while decreases in value are recognised as expenditure. Recognition of unrealised gains and losses will result in that statement being subject to the volatility of market price. Forestry is a cyclical business and it is inevitable that falling markets will be encountered in the future.

FES SoCNI shows a net surplus of £5.2million. The net cash funding received from FCS was £39.4 million. This was substantially above the outturn for 2009/10 (£32.6 million) mainly as a result of an expanded programme of work on the construction of forest roads and the provision of facilities and services for communities, recreation and tourism.

FCS and FES met the majority of their performance targets in 2010/11 and both have taken steps to increase efficiency and reduce on-going operating costs in the context of constrained public finances. In particular 41 staff left the organisation (4% of the total workforce) at an initial cost of £2.2 million.

Outlook

Scottish Ministers have agreed budgets for FCS and FES of £55.1 million and £24.9 million respectively following the autumn budget revision. This represents a reduction of some £3.4 million in funding for 2011/12. The required expenditure reduction is to be met through a combination of increased income and reduced expenditure on grants, the timber transport fund, and capital purchases. In addition, timber sales are continuing to achieve high prices and forecast timber income for 2011/12 is currently £57.6 million (£48.1 million actual 2010/11). The strong timber market mitigates the risk to delivery of the overall 2011/12 budget. The market for forest land is also buoyant and this creates opportunities in terms of land disposals but creates risks to achieving the necessary acquisitions to support the repositioning scheme.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audits of Forestry Commission Scotland (FCS) and Forest Enterprise Scotland (FES). FCS and FES will be referred to as appropriate throughout the report. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. Reports have been issued in the course of the year (Appendix A) and we do not repeat all of the findings in this report, but instead we focus on the financial statements.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that FCS and FES understand their risks and have arrangements in place to manage these risks. The Management Boards and Accountable Officers should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to FCS & FES and the Auditor General and should form a key part of discussions with audit committees, either prior to, or as soon as possible, after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the Audit and Risk Committee.
6. The management of audited bodies are responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the management commentary, statement on internal control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given unqualified opinions that the financial statements of FCS and FES for 2010/11 give true and fair views of the state of the bodies' affairs and of their excess of comprehensive expenditure over income for the year.
11. FCS and FES are required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that the financial statements have been properly prepared in accordance with the FReM.

Regularity

12. In accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000, we have also provided an opinion, that in all material respects, the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
13. We also confirm that we have no issues to report to you on the statement of internal control and its compliance with guidance.

Accounting issues

Accounts submission

14. A comprehensive set of financial statements and working papers were submitted for audit on 13 June, in accordance with the pre-agreed timetable. The audit fieldwork was completed and

any audit matters cleared with the Head of Finance by 8 July and a revised set (incorporating any audit amendments) completed on 15 July. A report covering any significant matters on the financial statements was issued to the Audit & Risk Committee (ARC) on 28 July. The revised financial statements were signed by the both chief executive and accountable officers on 28 July following approval by the board on the same date.

Presentational and monetary adjustments to the unaudited accounts

15. A small number of presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the FReM. There were also some monetary changes identified which resulted in a reduction in net operating surplus of £391,850 (5%) (refer to paragraph 18 below). The audited financial statements have been adjusted to reflect this.

Prior year adjustments

16. All central government bodies have been affected by the removal of the cost of capital in the 2010/11 FReM. This change is identified in the accounting policies and appropriate amendments have been made to the prior year statements.

Remuneration report and statement on internal control

17. In our opinion, the audited part of the remuneration report has been properly prepared and the remaining elements of the remuneration report and management commentary are consistent with the financial statements. The disclosure of compensation paid to staff for loss of office was included in the remuneration report and should have been included within the notes to the financial statements.

Refer Action Plan No. 1

Forest Enterprise Scotland - Vehicles Machinery & Equipment

18. We identified an error in the methodology used for an impairment review of Vehicle, Machinery and Equipment assets by Mechanical Engineering Services (MES) in Stirling, as a result of incorrect instructions to the external valuer of leased vehicles. The total effect of the error on the net surplus for the year was £391,850. In order to prevent a recurrence in future financial periods, an early meeting is planned between MES and Finance & Accounting Services to consider the 2010/11 accounts process and areas for improvement in 2011/12.

Refer Action Plan No. 2

Forest Enterprise Scotland - Timber valuation

19. The total valuation of felled timber at roadside and at stump is £1.622 million, valued on the basis of a Forest District (FD) average "unit price" for one sale category multiplied by the actual stock levels. The sale category used is "standing sale clear fell", as this is considered to be the unit price that most closely reflects the actual market value of felled timber (as harvesting and fixed costs are factored into the buyers' valuations). However the average unit price achieved from sales varies between £5.50 and £16.97, reflecting the range of quality of

the estate and the range of the individual stock by product type. The country finance teams have agreed they will revisit the generic application of “standing sale clear fell” to ensure that it continues to provide the best proxy for average unit price of felled timber.

Refer Action Plan No. 3

Whole of government accounts

20. The whole of government accounts (WGA) is the consolidated financial statements for all branches of government in the UK. FCS & FES were required to submit a consolidation pack by 29 July, prior to the submission to audit. The pack was submitted on 1 August and the audited return was completed by the audit deadline of 30 August 2011.

Outlook

21. The main change in the financial reporting framework (FReM) next year (2011/12) is that grants and donated assets should be recognised immediately, unless there is a condition that the recipient had not satisfied that would lead to repayment. Most grants and donated assets should be recognised as income, but grants from a sponsoring department to an NDPB should be credited to general reserves. As a consequence, the government grant reserve and donated asset reserve will no longer exist.
22. Looking further ahead, from 1 January 2013 changes to international financial reporting standards (IFRSs) will become effective. This includes the introduction of:
 - IFRS 9 - financial instruments (replacing IAS39)
 - IFRS 10 - consolidated financial statements (replacing IAS27)
 - IFRS11 - joint arrangements (replacing IAS31)
 - IFRS12 - disclosure of interest in other entities (replacing IFRS12)
 - IFRS 13 - fair value.
23. Revisions to the FReM for 2013/14 are included in the Financial Reporting Advisory Board (FRAB) forward work programme for 1 December 2011.

Audit appointment for 2011/12

24. Audit appointments are made by the Auditor General, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for FCS and FES will continue to be Audit Scotland. We look forward to continuing the good working relationship that exists and thank officers and members of the boards and committees for their assistance during the last five years.

Financial position

25. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
26. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
27. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results 2010/11

28. The Scottish Government provides FCS and FES with a budget allocation for the year, which originates from the Spending Review Settlement and is subsequently approved in the Budget Bill. During the year revisions are approved in the autumn and spring budget revisions. FCS & FES is expected to manage its budget in accordance with the Financial Memorandum and Scottish Public Finance Manual.
29. In order to ensure that the financial position for both FCS and FES is monitored effectively, cashflow forecasts are presented regularly to the Management Boards which track income/expenditure and cashflow during the year (actuals and forecasts). The main drivers such as timber income and volumes are captured monthly. The Management Boards are updated within a month of the period end.

Forestry Commission Scotland

30. The Statement of Parliamentary Supply (SPS) shows the summary of cash and resource outturn against supply estimates voted by parliament. The FCS SPS for 2010/11 shows a net resource of £9.6 million with a net cash requirement of £68.9 million. These were within the budgets set by the Scottish Parliament of £83.4 million and £77.6 million respectively. FCS drew down £74.5 million against the cash estimate during the year. The cash balance of £5.6 million will be repaid to the Scottish Government during 2011/12.
31. The FCS Statement of Comprehensive Net Income (SoCNI) shows a net operating surplus of £8.0 million. The most significant elements of FCS operating costs were
 - programme expenditure on grants paid to woodland owners of £10.2 million
 - forestry development programmes of £15.2 million

- the book value of felled timber of £26.5 million and
 - funding of Forest Enterprise Scotland of £39.5 million.
32. The SoCNI also discloses a gain on revaluation of biological assets of £108 million. Under IAS 41, increases in the value of biological assets are recognised as income in the Statement, while decreases in value are recognised as expenditure. Recognition of unrealised gains and losses in the Statement will result in the statement being subject to the volatility of market price.

Forest Enterprise Scotland

33. During 2010/11, FES recorded income of £62.5 million and received funding of £39.5 million from FCS. FES incurred operating expenditure of £96.4 million resulting in a net surplus for the year of £5.2 million (after property sales). The largest elements of FES's expenditure were
- timber harvesting and marketing (£20.9 million)
 - deer management and other forest protection and maintenance costs (£26.9 million).
34. Income from sales of timber was £48.1 million which was an increase of £8.4 million on 2009/10. This was mainly attributable to an increase in the price for timber.

Capital investment and performance 2010/11

35. The major capital activities of FCS support the repositioning scheme as outlined in the National forest estate strategic plan. The repositioning scheme is focussed on increasing the parts of the forest estate that have high public benefit. The market for forest land is extremely buoyant which has made land acquisitions difficult, however conversely land disposals are proceeding promptly and achieving good prices on the open market. This matter is considered further at paragraph 78.
36. The Head of Estates, FES, reported to the August 2011 meeting of the FES Management Board that disposals secured for 2011/12 were currently £15.7 million against a budget of £16.9 million. The Board was also informed that whilst the resource for acquisitions in 2011/12 is some £14 million, acquisitions completed for 2011/12 were £1.7 million with a further £6.8 million under offer. The Board agreed that the date of entry for any further sales during 2011/12 should be in financial year 2012/13
37. Construction work on the Glentress Peel visitor Centre in the Tweed Valley Forest Park was the main capital construction activity undertaken by FES during 2010/11 (£4.5 million). The programme is now complete and the centre opened in June 2011. Capital expenditure of a further £4.5 million was incurred on Vehicles, Machinery and Equipment (VME). This is less than the £6.5 million spent on VME in 2009/10 and FES will need to ensure that investment is at a sufficient level to maintain operating capacity.

Financial planning to support priority setting and cost reductions

38. Scottish Ministers have agreed 2011/12 budgets for FCS and FES of £55.1 million and £24.9 million respectively. This represents a reduction of £4.6 million in funding for FCS and an increase in funding of £1.2 million for FES for 2011/12. To deliver the overall balanced budget in 2011/12 a comprehensive review of all budgets was undertaken during 2010/11. The more significant activities designed to deliver year-on-year savings are detailed below.

Workforce reduction

39. FCS and FES operated a recruitment freeze and a voluntary early release (VER) scheme during 2010/11. The VER scheme resulted in 30 staff leaving the organisation. The cost to the organisation of this initial scheme was £2.2 million and represented 4% of the workforce. An additional 11 members of staff left through retirements or natural turnover.

Partnership working

40. FCS and FES continue to be involved in a number of partnerships. One of the most significant continues to be Scotland's environmental and rural services (SEARS). SEARS was established in 2008 and consists of seven other partners involved in the delivery of rural services:
- Animal Health and Veterinary Laboratories Agency
 - Cairngorms National Park Authority
 - Crofters Commission
 - Loch Lomond and the Trossachs National Park Authority
 - Scottish Environment Protection Agency (SEPA)
 - Scottish Government Rural Payments and Inspections Directorate
 - Scottish Natural Heritage
41. The aim of SEARS is to improve the efficient and effective delivery of rural services by co-ordinating inspections; providing access to advice; delivering consistent service; and focussing on the needs of land managers. The SEARS Annual Review 2010-11 highlights a number of instances of collaboration between FCS/FES and their SEARS partners. For example, SEARS partners have taken a joint approach to training and development with staff sharing training on Controlled Activity Regulations and Preparing for Court Appearances. FCS has also recorded its commitment to work with partners to develop an action plan to take forward forest-related proposals in Scotland's land use strategy.

Outlook

2011/12 budget

42. As outlined at paragraph 38, Scottish Ministers have agreed budgets for FCS and FES of £55.1 million and £24.9 million respectively. This represents a reduction of £4.6 million in

funding for FCS and an increase in funding of £1.2 million for FES in 2011/12. The FCS budget comprises:

- woodland grants £36 million
- programme costs of £22 million
- policy regulation and administration £5 million
- co-financing receipts from the EC of £18 million

43. The required expenditure reduction is to be met through a combination of increased income (from timber sales and renewables) and reduced expenditure on grants, the timber transport fund, and capital purchases (machinery). In addition, following the imposition of a recruitment freeze and through the impact of the voluntary early severance scheme, FCS has removed 41 full time equivalent posts from the establishment. A further early release scheme is currently in progress with 35 cases approved. A third scheme will be run early in 2012.
44. The FES 2011/12 budget comprises operating costs of £22.6 million and capital expenditure of £3.2 million (£23.6 million and £1.3 million respectively for 2010/11). The 2011/12 budget also includes land and forest sales of £10.0 million offset by land and forest purchases of £10.0 million.
45. Timber sales are continuing to achieve high prices and forecast timber income for 2011/12 is currently £57.6 million (£48.1 million actual 2010/11). The strong timber market mitigates the risk to delivery of the overall 2011/12 budget.

End Year Flexibility

46. As part of efforts to reduce national borrowing levels, the UK Government has announced the replacement of End Year Flexibility with a more restrictive budget exchange arrangement from 2011/12. The Scottish Government is in dialogue with HM Treasury about the ultimate implications for the Scottish Budget, including the extent to which it can carry forward any unspent funding from 2010/11 to future years.

Governance and accountability

47. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
48. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
49. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
50. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

51. The National Committee for Scotland (NCS) is responsible for ensuring that FCS and FES fulfil the aims and objectives set by Scottish Ministers. The NCS comprises the FCS Chair and Non-executive directors; the director of FCS; the chief executive of FES; and the director of Corporate Services. The role of the National Committee includes establishing the overall strategic direction, monitoring performance against agreed objectives and ensuring that statutory requirements for the use of public funds are complied with.
52. The Audit and Risk Committee monitors and reviews risk, control and corporate governance and reports to the National Committee.

Internal control

53. Our audit approach includes a review of the high level controls operating within FCS and FES's key financial systems. Our overall conclusion from the 2010/11 review was that key controls were operating effectively and that both FCS and FES have adequate systems of internal control in place.
54. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and

controls of audited bodies as a whole. However, the extent of this work is informed by an assessment of risk and the activities of internal audit.

55. As part of our risk assessment and planning process we assessed FCS and FES's internal audit section and concluded that they operate in accordance with the Government Internal Audit Manual. We were therefore able to place reliance on their work in a number of areas as detailed within our annual audit plan.
56. In her annual report for 2010/11, the head of internal audit provided her opinion that 'the control framework within FC and FE Scotland continues to provide substantial assurance that material risks to the achievement of objectives are identified and adequately managed'. The report does note that only limited assurance can be given in the areas of business continuity and disaster recovery.
57. Internal audit are monitoring progress made against their recommendations to address weaknesses in business continuity planning and disaster recovery. We will continue to liaise closely with the internal audit department to confirm progress.
58. The Statements on Internal Control (SIC) provided by the Accountable Officers reflected the main findings from both external and internal audit work. The SICs record management's responsibility for maintaining a sound system of internal control and summarise the process by which the Accountable Officers' obtain assurances on the contents of the SIC.

Prevention and detection of fraud and irregularities

59. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
60. FCS and FES have appropriate arrangements in place to prevent and detect instances of fraud and corruption including detailed policies which have recently been reviewed and updated.
61. There were no instances of fraud or corruption reported in 2010/11.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

62. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We have concluded that the arrangements in FCS and FES are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Best Value, use of resources and performance

63. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
64. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
65. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
66. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
67. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
68. This section includes a commentary on the Best Value/ performance management arrangements within bodies. We also note any headline performance outcomes/ measures used by FCS and FES and any comment on any relevant national reports and the bodies' response to these.

Management arrangements

Best Value

69. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
70. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

71. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
- vision and leadership
 - effective partnership
 - governance and accountability
 - use of resources
 - performance management
 - equality (cross-cutting)
 - sustainability (cross-cutting)
72. FCS and FES have not yet developed a formal response to the new guidance for accountable officers. Although FCS and FES are active in all best value areas (including cross-cutting areas) the relationship between some of these activities and delivery of the corporate plan is not always clear

Refer Action Plan No. 4

Overview of performance in 2010/11

Performance measurement outcomes

73. The Scottish Forestry Strategy (SFS) was originally published in October 2006. Implementation of the Strategy has been focused on delivering forestry benefits to Scotland to help achieve the Scottish Government's wider policies and contribute towards its National Outcomes. The Strategy includes a commitment to publish implementation plans to guide delivery. The SFS implementation plan 2008-11 contains a number of specific action points for 2010/11 based around seven key themes:
- tackling climate change
 - promotion of timber
 - business development
 - boosting community involvement
 - environmental quality
 - improving access and health
 - enhancing biodiversity
74. The SFS also makes a commitment to the publication of implementation plans to guide delivery and a progress report was published in April 2011 which summarises what FCS and its 2010/11 action partners have delivered during the year against the strategy outcomes. Of the 209 actions in the 2010/11 Implementation Plan, 189 (82%) were achieved and 17 (16%) have been carried over into the 2011/2012 plan. Three have been superseded.
75. The SFS also identifies a set of indicators for each of the key themes which are used to gauge progress over the life of the current strategy. For those indicators updated annually, a record

of progress against the themes is emerging. FCS has highlighted in particular that the area of new planting has shown a substantial increase (89%) over 2009/10.

76. FES achieved 8 of its 11 Key Agency Targets for 2010/11 (one of the 11 targets is measured by a new system and could not be evaluated). Measures of performance achieved include:
- 100 % of the national forest estate independently certified as being sustainably managed.- 100% achieved
 - 80,000 hectares of woodland managed using alternatives to clearfelling – 80,806 hectares achieved
 - 87,000 hectares managed within 4 km of settlements of more than 500 people – 88,768 hectares achieved
 - Annual 5% reduction in carbon emissions from administrative travel – 13.5% achieved.
77. Two targets were not achieved:
- 1,181 hectares of woodland creation – 712 hectares (60.3%) achieved.
 - 100% of sales plan harvested – 96.5% achieved.

Efficiency targets

78. FCS & FES were required to make a contribution to a 2% per annum cash releasing efficiency saving for the Rural Affairs and Environment portfolio in the 2010/11 budget settlement. The 2% efficiency represents £2 million for FCS. The FCS delivery plan for the 2008-11 efficiency programme records that it plans to sell those assets delivering least against Scottish Government objectives and reinvest the excess of income over expenditure on buying land and planting trees that better meet Scotland's needs (a more ambitious savings target of £10 million per annum for each of the three years). These disposals and acquisitions are managed by FES through the 'repositioning scheme' but are held on FCS accounts. FCS and FES have therefore met their efficiency target for 2010/11 through the repositioning scheme. Outturn savings of £10.7 million were reported to the Scottish Government against the previously stated target of £10m.

National performance reports

79. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of interest are:

Exhibit 1: A selection of National performance reports 2010/11

- | | |
|---|---|
| <ul style="list-style-type: none"> • Improving energy efficiency: a follow-up report • Scotland's public finances: responding to the challenges | <ul style="list-style-type: none"> • Role of boards: a summary for non-executive board members • Management of the Scottish Government's capital investment programme |
|---|---|

- The role of boards

-

Source: www.audit-scotland.gov.uk

Role of boards

80. FCS regularly reviews the processes of the National Committee and the ARC. FCS also has arrangements in place to complete a self assessment using the Scottish Government 'On Board' self assessment tool. We will be following up our role of boards report early in 2012 and reporting on compliance with the reports recommendations.

Management of the Scottish Government's capital investment programme

81. Although capital activity is not the major focus of their activity, FCS and FES reviewed the report and have identified areas for incorporation into the further development of project appraisal and project management processes. Reviews of alternative funding mechanisms and capital priorities are now a part of FCS and FES investment considerations.

Appendix A: audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
Annual Audit Plan	4 March 2011	8 March 2011
Key financial controls assurance report	26 May 2011	28 July 2011
Report on financial statements to those charged with governance	25 July 2011	28 July 2011
Audit opinion on the 2010/11 financial statements	25 July 2011	28 July 2011

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	17	<p>The Remuneration Report includes disclosure of compensation paid to staff for loss of office. In accordance with the Employer Pensions Notice (EPN) 296 and Annexe 13, this disclosure should have been included within the notes to the financial statements for the Forestry Commission Scotland.</p> <p>There is a risk that future financial statements do not comply with guidance.</p>	Although note 5 to the financial statements, includes a reference to the disclosure in the remuneration report, officers have agreed to revise the positioning of the disclosure for 2011/12.	Ross MacHardie (FAS)	30th November 2011
2	18	<p>An error in the methodology used for an impairment review of Vehicle, Machinery and Equipment assets by Mechanical Engineering Services resulted from incorrect instructions to the external valuer of leased vehicles.</p> <p>There is a risk that future valuations are affected by incorrect instructions.</p>	In order to prevent a recurrence in future financial periods an early meeting is planned between MES and Finance & Accounting Services to consider the 2010/11 accounts process and areas for improvement in the process for 2011/12.	Ian Rae (FAS)	31 December 2011
3	19	The total valuation of felled timber at roadside and at stump is valued	"standing sale clear fell" is considered to be the unit price that	Alan Duncan (FES)	31 March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>on the basis of a Forest District average "unit price" for one sale category multiplied by the actual stock levels. The sale category used is "standing sale clear fell", However the average unit price achieved from sales are between £5.50 and £16.97 reflecting the range of quality of the estate and the range of the individual stock by product type.</p> <p>There is a risk that the average price used does not adequately value the range of range of quality and estate in the felled timber stock.</p>	<p>most closely reflects the actual market value of felled timber (as harvesting and fixed costs are factored into the buyers' valuations). However, the country finance teams have agreed they will revisit the generic application of "standing sale clear fell" to ensure that it continues to provide the best proxy unit price, during 2011/12.</p>		
4	72	<p>In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement. FCS and FES have not yet developed a formal response to the new guidance.</p> <p>There is a risk that FCS</p>	<p>Although FCS and FES are active in all best value areas (including cross-cutting areas) the relationship between some of these activities and delivery of the corporate plan is not always clear and a self-assessment review will be undertaken using the guidance.</p>	Nicky Whitaker (FCS)	31 March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		and FES are not able to demonstrate the duty of Best Value.			