

# Forestry Commission Scotland / Forest Enterprise Scotland

Management Report 2017/18



 AUDIT SCOTLAND

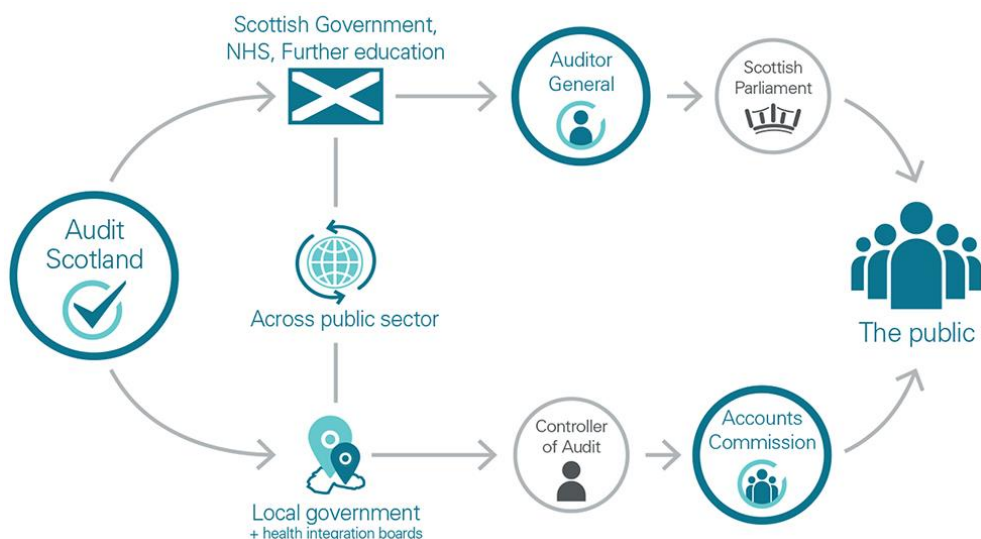
Prepared for Forestry Commission Scotland / Forest Enterprise Scotland

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## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

# Contents

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<b>Audit findings</b>	<b>4</b>
Introduction	4
Conclusion	4
Work summary	5
Governance and transparency	5
Financial sustainability and financial management	6
ICT and application health check	6
Risks identified	7

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# Audit findings

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## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Forestry Commission Scotland (FCS) and Forest Enterprise Scotland (FES). As FCS and FES use a number of shared systems, we have prepared one report covering both organisations. Matters raised in relation to FES following our district visits have been separately identified.

2. Our work included testing of key controls within the key financial systems to gain assurance over the processes and systems used in preparing the financial statements. We also undertook a high level review of ICT arrangements. We will use the results of this testing to determine our approach during the 2017/18 financial statements' audit.

3. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that FCS and FES:

- have systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- have systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- comply with established policies, procedures, laws and regulations.

4. Under the Code of Audit Practice, we also undertake wider dimension work across four audit dimensions: financial management, financial sustainability, governance and transparency and value for money.

5. We initially intended to review progress on the organisational change programme. Due to the amendments arising from the Forestry and Land Management (Scotland) Bill approved in March 2018, the structure of both organisations is currently being reassessed by management. This means we have not progressed the audit work originally planned at this time, but will continue to monitor overall progress.

## Conclusion

6. No significant control weaknesses were identified from our interim audit work. Our interim work will enable us to take planned assurance for our audit of the 2017/18 financial statements. We identified a small number of control weaknesses from our work as summarised in [Exhibit 1](#). We also visited two FES district offices where we undertook some controls and pre-year end substantive testing and our findings are reported at [Exhibit 2](#).

7. In terms of our wider dimension audit work we concluded that FCS and FES budgetary processes and budget monitoring arrangements operated effectively during 2017/18 and helped support the effective scrutiny of finances. We also considered FCS and FES governance arrangements by reviewing procedures for maintaining the registers of interests; cyber security arrangements and preparation for the implementation of the General Data Protection Regulation. Our work is largely complete and we have identified one area for improvement as set out below and in [Exhibit 1](#). We shall report our findings from our wider dimension work in our

Annual Audit Report, which we will present to the July 2018 Audit and Risk Committee.

**8.** Our work undertaken to date is also of relevance to the National Audit Office for whom we agreed to review some shared systems.

**9.** The matters raised in this report should be considered as part of the Accountable Officers' assessment of the review and adequacy of the financial governance processes in place to support the Annual Governance Statements.

## Work summary

**10.** Our 2017/18 testing covered key controls within the main financial systems. These controls included bank reconciliations; payroll validation and exception reporting; authorisation of journals; change of supplier bank details; IT access controls; budget monitoring and control; feeder system reconciliations; controls for preventing and detecting fraud in relation to grant claims; and a review of the underlying system for recording timber sales and their subsequent valuation.

**11.** We also performed early substantive testing of income, expenditure, payroll costs, travel and subsistence claims and capital additions/disposals. We shall verify the reported net values as part of our financial statements audit.

**12.** Our wider dimension testing included a review of the arrangements for the register of interests, financial management and financial sustainability. Our findings are outlined below. We have also reviewed cyber security arrangements and progress made in preparedness for the introduction of the General Data Protection Regulation. We will continue to monitor progress in these areas and our findings will be reported in our Annual Audit Reports.

**13.** We are also required to undertake specific testing on the Sales Recording Package (SRP), which is a GB-wide shared system managed by FCS/FES. Part of this work took place during our visits to the Moray & Aberdeenshire and the Cowal & Trossachs district offices. We reviewed controls at a local level over timber income, timber inventories and felled timber valuations. As outlined in our agreement with the NAO, we also undertook a high-level review of ICT controls.

**14.** In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified.

**15.** The key control and wider scope risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit, where relevant. Risks identified from our district visit audits are detailed in [Exhibit 2](#).

**16.** The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

**17.** Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to FCS and FES.

## Governance and transparency

**18.** As referred to in our annual audit plan, we reviewed and assessed the processes in place for maintaining the registers of interests.

**19.** Forestry Commission Scotland and Forest Enterprise Scotland have established procedures for recording, monitoring, and disclosing staff and board member interests. We identified several examples of good practice and one area for improvement. We noted that there was no guidance outlining the action to be taken by management in response to the identification of a conflict of interest.

**Refer to Exhibit 1, issue 5**

## **Financial sustainability and financial management**

**20.** In the FES Annual Audit Plan, we identified a risk in relation to the financial sustainability of FES due to fluctuations in timber income and increasing cost pressures. As part of our work to address this risk, we reviewed progress of the long-term financial strategy as well as reviewing monthly finance reports and the impact of economic conditions on timber income.

**21.** Our testing identified that adequate monitoring of timber income takes place in FES with budget reports indicating that income from the sales of timber will be £4.6m more than budgeted for 2017/18. High level controls are in place to ensure timber income is monitored effectively, including:

- production of monthly income reports sent to forest district managers and FES senior management
- monitoring of income against targets
- monthly reporting to the FES management board.

**22.** Progress is being made to develop the FES long-term financial strategy and plan. A draft financial strategy was presented to the FES Management Board in August 2017 and discussed with the National Committee for Scotland (NCS) in November 2017. However, following Internal Audit's findings on Contract Management, Procurement and Finance Support Visits, FES and the NCS agreed that these areas should be prioritised over the development of the long-term financial plan.

**23.** Resources are now in place to enable development of the long-term financial plan but, given the current significant organisational change, it is unlikely that the plan will be fully developed until Forestry and Land Scotland comes into being in April 2019.

**24.** In terms of financial management, we concluded that, overall, FCS and FES budgetary processes and budget monitoring arrangements for 2017/18 operated effectively and helped to support effective scrutiny of finances.

## **ICT and application health check**

**25.** We carried out an ICT review on the Forestry Commission shared Information Systems (IS) function to confirm the design and working of general ICT controls which included a review, and testing, of the interface process. We also reviewed the transitional arrangements in place for IS and followed up matters reported in our 2016/17 interim report.

**26.** Our discussions with IS staff highlighted that the transition process was progressing well with England splitting away from Scotland on 31 March 2018. There is still a significant FC Central Services element in Scotland and this will be disbanded on 31 March 2019 when all services will be fully separated. However, late amendments arising from the Forestry and Land Management (Scotland) Bill will impact on FCS information systems. FCS had anticipated they would be utilising Scottish Government systems as of April 2019. Management are currently considering financial system options available in relation to the transition process.

**27.** Target Operating Models have been prepared to provide a high-level overview of the proposed ICT vision to support transition into the two new bodies. It is

planned that all IS services will move to a cloud platform and the build of the environment is already underway.

#### Follow-up of 2016/17 findings

**28. General ICT control** - In our 2016/17 report we noted that the Forestry Commission's disaster recovery arrangements were in place but had not been tested. Whilst the transition project is ongoing and current services are broken up and where appropriate dismantled, we do not expect any further actions regarding disaster recovery testing to be carried out. The new organisations will become responsible for their own disaster recovery arrangements going forward.

#### **29. Sales recording package:**

- Oracle database – we referred to the use of an Oracle database used for SRP which is currently no longer supported. As part of the transition project, a migration of SRP is planned from a centrally managed service to cloud provision (in Scotland) and management of a separate copy (in England). As part of the transition project, the Scottish version of SRP will be subject to two Oracle upgrades to bring the system in line with supplier support arrangements. The support team for the English SRP instance will make its own arrangements for upgrading the system after the split on 1 April 2018
- generic user – we referred to the set up of a generic user on SRP. We anticipate that the transition project will review the user access arrangements and ensure that no residual generic users will be retained on the country instances
- key staff dependency – we referred to there being only two staff members who fully understood the SRP. The project analyst responsible for the development of SRP functionality is moving to Forestry England as part of the transition programme. A new member of staff has been hired to take over the role and although they have experience with sales packages and databases, they have limited experience with the business processes in FES.

### Risks identified

**30.** The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

## Exhibit 1

### Key findings and action plan 2017/18

Issue identified	Management response	Responsible officer and target date
<b>Key controls – audit findings</b>		
<p><b>1 Authorisation of journals (FCS)</b></p> <p>The eFinancials ledger system allows any user to input and self-authorise journals up to £1m. To mitigate the risk of this occurring, FCS and FES have in place local authorisation controls to ensure segregation of duties is in place for authorising manual journals.</p> <p>In 2017/18 from our sample of 15 FCS manual journals, we found two</p>	<p>Controls and policy on journal input and authorisation will be reviewed to reduce risk of input and authorisation by the same individual.</p> <p>The process for storing and filing journals will be reviewed to identify improvements that can be made. Staff will also be reminded of the importance of ensuring journals and supporting documentation are stored correctly.</p>	<p>FCS Senior Finance Manager</p> <p>September 2018</p>



Issue identified	Management response	Responsible officer and target date
<p>instances where these had been input and authorised by the same officer.</p> <p>Instances of journals input and authorised by the same officer were also identified and reported in our 2016/17 interim audit report.</p> <p>Journals should be subject to an independent review and authorisation in line with policy.</p> <p>We also noted two instances where the journal documentation was missing. This meant we were unable to confirm the authorisation of or segregation of duties for the journals.</p> <p><b>There is a risk of error or irregularity not being identified due to the absence of independent review. All back up should be retained.</b></p>		
<p><b>2 Changes to supplier bank details</b></p> <p>In 2016/17 we identified several weaknesses in the controls for changing supplier bank details. Management agreed to reiterate the guidance for amendments to suppliers to staff.</p> <p>We tested 23 (5 FCS/ 18 FES) supplier bank account changes in 2017/18 to ensure that changes had been subject to the checks outlined in the 'Finance Process Manager Authoriser Check' guidance. Several issues were noted in relation to the evidence retained which were contrary to guidance.</p> <p><b>There is a risk of incorrect or fraudulent payments.</b></p>	<p>FCS will remind Office Managers of the guidance they should be following.</p> <p>FES: From 1 October 2016 procedures have been put in place in order that all supplier amendments are processed by FESHO to ensure that controls are adhered to. However further evidence has been found in relation to non-compliance so we will review forms/ guidance and provide training as required. We will also consider what additional supervisory checks could be implemented effectively.</p>	<p>FCS Senior Finance Manager</p> <p>September 2018</p> <p>FES Snr Finance Manager – Accounting &amp; Compliance</p> <p>Pre April 2019</p>
<p><b>3 Bank reconciliations</b></p> <p>We tested a sample of six monthly bank reconciliations. We identified one instance where there was no evidence that second officer review had taken place as required.</p> <p><b>There is an increased risk of undetected error if reconciliations are not reviewed by a second officer on a timely basis.</b></p>	<p>This task was undertaken out by FAS central services. Once the central services are fully devolved this will move across to FES when we shall review processes and associated controls.</p>	<p>FES Snr Finance Manager – Accounting &amp; Compliance</p> <p>Pre April 2019</p>



Issue identified	Management response	Responsible officer and target date
<b>Other matters</b>		
<p><b>4 Staff Expenses</b></p> <p>We undertook substantive testing on FES travel and subsistence costs. We tested a sample of 15 expense claims and identified:</p> <ul style="list-style-type: none"> <li>In one instance, the amount claimed was outwith FES policy limits and there was no evidence of prior approval from the line manager approval for exceeding the accommodation limit.</li> <li>In another sample, there was no receipt attached to the expense form to evidence the travel claim.</li> </ul> <p><b>There is a risk that expenses claims are reimbursed which do not relate to authorised business activities and are contrary to policy.</b></p>	<p>Staff will be reminded of the policy in place and how to get the support.</p>	<p>Head of HR</p> <p>End August 2018</p>
<b>Wider audit dimensions - issues and risks</b>		
<p><b>5 Registers of interest</b></p> <p>The registers of interests cover all board members as well as senior management members in FCS and FES. However, there is no guidance detailing what action should be taken in response to a staff notified conflict of interest.</p> <p><b>There is a risk conflicts of interest are not addressed appropriately.</b></p>	<p>We will consider this as part of the new agency arrangements.</p>	<p>FES Head of Corporate Support</p> <p>April 2019</p>
<p>Source: Audit Scotland</p>		

**31.** We are required to undertake specific testing on a number of GB wide-shared systems which are managed by FCS/FES. Part of this work took place during our visits to the Cowal & Trossachs Forest District in February 2018 and the Moray & Aberdeenshire Forest District in March 2018. We reviewed controls at a local level over timber income, timber inventories and felled timber valuations. [Exhibit 2](#) below outlines our findings. The matters raised below may apply across all district offices and we recommend that management introduce a process whereby these matters are shared organisation – wide.

**Exhibit 2**

## Findings arising from Forest District Visits.

Issue identified	Management response	Responsible officer and target date
<b>Audit findings</b>		
<p><b>1 Timber security</b></p> <p>The Timber Security Policy provides guidance for operational and district staff on managing and assessing the risks associated with timber security. The Policy requires that all standard risk contracts have a certain percentage of despatches checked. The Personal Identification Number (PIN) check reports for each district identified that in respect of 14 contracts, the minimum required level of check had not been achieved.</p> <p><b>There is a risk to the effectiveness of security arrangements surrounding timber stocks.</b></p>	<p>As an organisation we have experienced significant resource issues, particularly across both these areas, which has impacted on our ability to meet timber security spot check targets as laid out in the Operational Guidance Booklet.</p> <p>As part of the restructuring and increased resource in Marketing and Sales, we shall be in a position to reinstate the following:</p> <ul style="list-style-type: none"> <li>• Monitor weighbridge activity reports and identify potential non-compliance for target spot checks.</li> <li>• Support contract managers in the consistent implementation of FES PIN exception policy.</li> </ul>	<p>Head of Land Management</p> <p>December 2018</p>
<p><b>2 Timber contracts</b></p> <p>We tested ten contracts at Cowal &amp; Trossachs and ten contracts at Moray &amp; Aberdeenshire. We identified a number of similar issues across both districts including:</p> <ul style="list-style-type: none"> <li>• contracts neither signed nor dated</li> <li>• contract extensions not signed</li> <li>• reasons for contracts extension not specified</li> <li>• contract header reports neither signed nor dated</li> <li>• addendums(a) not issued following a price change</li> <li>• the first despatch date was prior to the signing of the contract.</li> </ul> <p>Our sample testing did not identify any matters relating to the regularity of the transactions and timber control and accountability.</p> <p><b>There is a risk of inappropriate payments as a result of incomplete contract documentation.</b></p>	<p>These findings highlight gaps in the administration and contractual process. The lines of communication between authorised signatories and local administrators have become disjointed in part due to the geographical spread of staff within the Operational Areas. This can also lead to lengthy delays in contract signatories and validation checks as identified. We are currently going through a change process in the Marketing &amp; Sales team and a number of improvements will be introduced to streamline the process.</p> <p>This will be shared across district teams.</p>	<p>Head of Land Management</p> <p>December 2018</p>
<p><b>3 Sub Compartment Database (SCDB)</b></p> <p>Our review of arrangements for updating the Sub Compartment Database identified different practices for approving changes to the SCDB.</p>	<p>Due to varying levels of IT literacy in staff and working environments FES does not propose a standard approach to the supply of SCDB updates to Geographic Information System (GIS) Technicians. We will however ask GIS Technicians to store info passed to them by staff and contractors in either paper</p>	<p>Head of Land Management</p> <p>December 2018</p>

Issue identified	Management response	Responsible officer and target date
<p>One district formally recorded the forester's approval for quarterly felling and restocking updates, and the other office obtained a verbal confirmation. Forester approval for quarterly updates to the SCDB should be retained. Practices should be reviewed and applied throughout.</p> <p><b>There is a risk of incorrect data being held in the Sub Compartment Database leading to an inaccurate valuation of the forest estate.</b></p>	<p>or electronic format so that changes to the SCDB can be manually traced back if required.</p> <p>The GIS system in FES logs each change to the SCDB and who made it. Further SCDB quality assurance controls are the independent estate valuation exercise which is done to <i>RICS Red Book</i> standards. This involves independent valuers randomly sampling the SCDB to check it is accurate and of suitable quality to value estate assets. FES will run a refresher exercise with all FES GIS Technicians to re-emphasise the need for good SCDB management. This will cover retention of paper and electronic information supplied to GIS Technicians by staff and contractors which is used to update.</p>	

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Source: Audit Scotland

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**32.** All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Forestry Commission Scotland / Forest Enterprise Scotland

## Management Report 2017/18

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