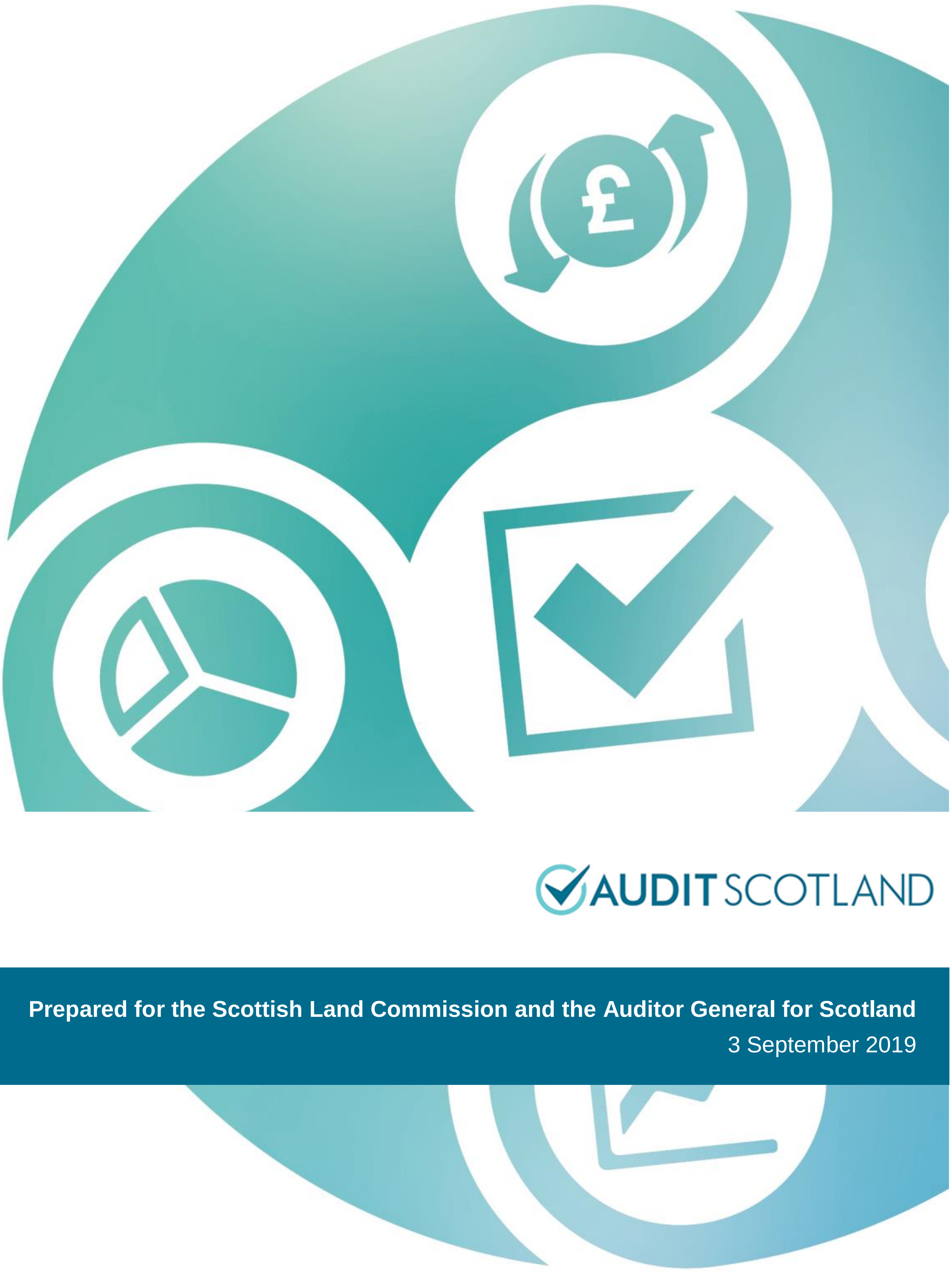
Scottish Land Commission

2018/19 Annual Audit Report



AUDIT SCOTLAND

Prepared for the Scottish Land Commission and the Auditor General for Scotland

3 September 2019

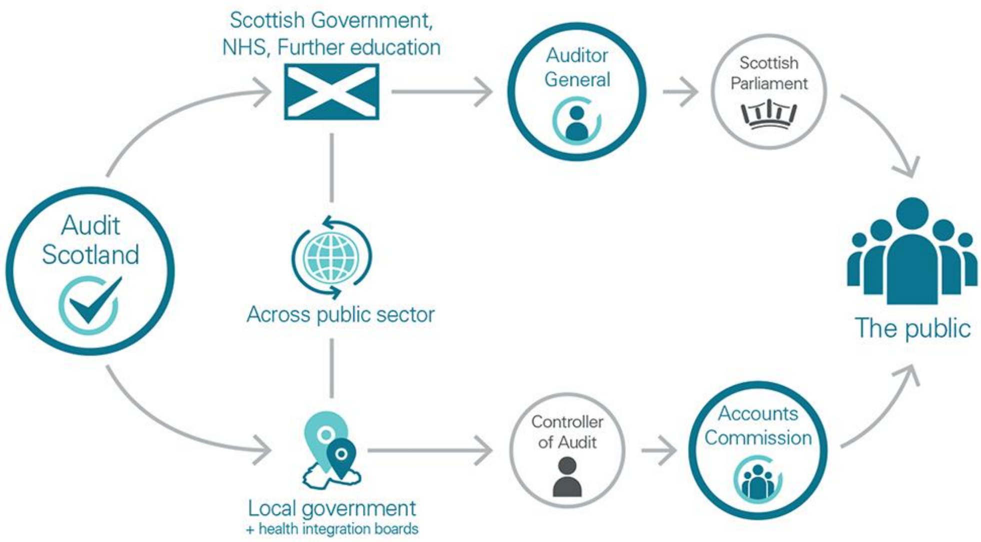
Who we are

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

Key messages

2018/19 annual report and accounts

1 The Commission's financial statements give a true and fair view of its year end financial position and net expenditure for 2018/19.

2 The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

3 The other information in the annual report and accounts is consistent with the financial statements and has been prepared in accordance with legal requirements.

Financial management and sustainability

4 The Commission effectively managed its finances in 2018/19.

5 The Commission has underspent its budget since its inception in 2017, and as at 30 June 2019, there had been minimal spend on a number of its strategic priorities during 2019/20. Close monitoring will be required to ensure that it makes the best use of its available resources during 2019/20.

6 Budgets are prepared and approved on an annual basis. The Commission could improve its financial planning arrangements by developing a long-term financial strategy supported by detailed medium-term financial plans. These plans should link closely to the outcomes set out in its Strategic Plan 2018-2021

7 The Commission has taken reasonable steps to prepare for the impact of EU withdrawal.

Follow up of prior year recommendations

8 The Commission's performance management framework is still being developed and so there remains a risk that delivery of the strategic plan's outcomes is not adequately monitored and reported.

Introduction

1. This report summarises the findings from our 2018/19 audit of the Scottish Land Commission ('the Commission').

2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2019 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of the Commission's annual report and accounts
- consideration of the Commission's financial sustainability and the appropriateness of the disclosures in the annual governance statement
- review of the Commission's budget monitoring and performance management arrangements.

Adding value through the audit

3. We add value to the Commission through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
- sharing intelligence and good practice through our national reports (Appendix 3) and good practice guides
- providing clear conclusions on the appropriateness, effectiveness and impact of performance management arrangements and financial sustainability.

4. In so doing, we aim to help the Commission promote improved standards of governance, better management and decision-making and more effective use of resources.

Responsibilities and reporting

5. The Commission has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The Commission is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the *Code of Audit Practice 2016* and supplementary guidance and International Standards on Auditing in the UK.

7. As public-sector auditors we give independent opinions on the annual report and accounts and conclude on securing financial sustainability and the appropriateness of the governance statement disclosures. In doing this, we aim to support improvement and accountability.

8. The *Code of Audit Practice 2016* (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. As highlighted in our 2018/19 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2018/19 audit.

9. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our annual audit report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

11. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services. The 2018/19 audit fee of £24,500, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

13. We would like to thank the management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual report and accounts

Main judgements

The Commission's financial statements give a true and fair view of its year end financial position and net expenditure for 2018/19.

The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

The other information in the annual report and accounts is consistent with the financial statements and has been prepared in accordance with legal requirements.

The annual report and accounts are the principal means of accounting for the stewardship of the Commission's resources and its performance in the use of those resources.

Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2019 were approved by the Commissioners on 3 September 2019. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance issued by Scottish Ministers
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

15. Additionally, we have nothing to report in respect of misstatements in other information presented with the financial statements, the adequacy of accounting records or the information and explanations we received.

Submission of annual report and accounts for audit

16. We received the unaudited annual report and accounts on 10 June 2019 in line with our agreed audit timetable. The annual report and accounts presented for audit were of a reasonable standard although we identified a number of areas where disclosures required by the Government Financial Reporting Manual (FReM) were not included (see Exhibit 2 and paragraphs 27 to 36 for details).

17. Overall, the working papers provided were of a good standard although the initial working papers package did not include a completed disclosures checklist or a working paper for every disclosure within the accounts. Additional working papers and supporting documentation were provided during the audit at the request of the audit team.

18. The Commission's staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risks of material misstatement

19. Appendix 2 provides a description of the audit risks of material misstatement in the annual report and accounts and any wider dimension audit risks we identified during audit planning. It also summarises how we addressed each of these audit risks and our conclusions.

20. We report a number of issues resulting from our work on these audit risks throughout this report and include appropriate recommendations in the action plan at Appendix 1.

Materiality

21. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material, we consider both the amount and nature of the misstatement.

22. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in Exhibit 1. With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

23. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality	£28,000
Performance materiality	£14,000
Reporting threshold	£1,000

Source: Annual Audit Plan 2018/19

Significant findings from the audit (ISA 260)

24. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

25. The significant findings are summarised in Exhibit 2. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

Exhibit 2
Significant findings from the audit of the financial statements

Finding	Resolution
1. Misclassification of expenditure Staff costs were overstated, and other operating expenses were understated by £19,000 in the accounts presented for audit due to transactions being posted to incorrect account codes.	Management agreed to amend the annual report and accounts to correct this misstatement. Appendix 1, Recommendation 1
2. Trade and other payables Trade and other payables and cash and cash equivalents were overstated by £6,000 in the accounts presented for audit as a payment made on 29 March 2019 had been incorrectly recorded as still outstanding at the year end.	Management agreed to amend the annual report and accounts to correct this misstatement. Appendix 1, Recommendation 1
3. Untaken leave accrual Staff costs and the untaken leave accrual were understated by £3,000 in the accounts presented for audit as the wrong year's salary information was used to calculate the accrual. In addition, the original accrual amount was not correctly posted to the ledger.	Management agreed to amend the annual report and accounts to correct these misstatements. Appendix 1, Recommendation 1
4. Research contracts accrual Other operating expenses and trade and other payables were understated by £1,000 due to an error in the calculation of the amount of a research contract (work in progress) that had been completed at the year end.	Management agreed to amend the annual report and accounts to correct this misstatement. Appendix 1, Recommendation 1
5. Compliance with the FReM We identified a number of areas of non-compliance with the financial reporting framework (FReM), relevant legislation and directions made by Scottish Ministers. More details on these are set out in paragraphs 27 to 36 below.	Management agreed to amend the annual report and accounts to address the non-compliance issues identified during the audit. Appendix 1, Recommendation 1

Source: Audit Scotland

Qualitative aspects of the audit

26. We identified a number of significant findings in relation to the qualitative aspects of the Commission's accounting practices particularly in relation to compliance with the FReM, relevant legislation and directions made by Scottish Ministers. These are reported in the following paragraphs.

Governance Statement

27. Our review of the Governance Statement within the annual report and accounts assessed the assurances which are provided to the Accountable Officer regarding the adequacy and effectiveness of the Commission's system of internal control which operated in the financial year. As in previous years, the Accountable Officer has placed reliance on the assurance letters provided by each Head of Service.

28. Reliance is also placed on internal audit findings reported during the year, and internal audit's overall opinion that '*the risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related risk management, control and governance objectives were achieved for the period under review, except in the case of the risk management review where we noted that improvements were* *required to the operation of the overall risk management framework. We note, however, that by the end of the period under review, these were addressed by management through implementation of the related recommendations*.'

29. The governance statement sets out a number of risks facing the Commission in the coming year including delivery of the Commission's work programme, development of a tailored information and financial system to support delivery of the Commission's objectives, and continued development of performance management information.

30. Our audit identified a number of amendments were required to the unaudited governance statement to improve its compliance with the guidance and management agreed to implement these. In particular, amendments were made to reflect the arrangements in place throughout the year, not just those at the year end.

31. We concluded that the governance statement included in the audited annual report and accounts complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, is consistent with the financial statements.

Performance Report

32. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of performance. It is important in helping stakeholders understand what the organisation has achieved from the public money made available to it, and the connections between performance and the financial statements.

33. There are a number of characteristics which make for a high-quality performance report. Audit Scotland published a Good Practice Note on performance reports in February 2019. We highlighted this to management in advance of our year-end audit.

34. Our audit identified a number of improvements were required to the performance report included in the annual report and accounts presented for audit to ensure compliance with the FReM. These included the need for:

- a performance summary within the Overview section
- a link between national/local outcomes and the Commission's Strategic objectives
- commentary on financial performance and how this links to the achievement of these objectives
- mitigating actions for the key risks identified
- a link between estimations and uncertainty and the key risks identified
- commentary on the reasons for non-achievement of targets in the year
- comparative information including commentary on changes in performance from the prior year.

35. Management agreed to amend the performance report to address these omissions. Links between key performance indicators (KPIs), risk and uncertainty are not included as the Commission has yet to finalise its performance management framework. We concluded that the Commission's audited performance report meets the requirements of the FReM.

Remuneration and Staff Report

36. Our audit identified that the Remuneration and Staff report did not comply with the disclosures required by the FReM due to the omission of:

- prior year comparative figures
- pension-related disclosures on actuarial valuations and employer contributions
- expenditure on consultancy fees.

37. We also identified errors in the calculation of the fair pay (pay multiples) disclosure. Management agreed to amend the Remuneration and Staff Report to address these errors and omissions. We concluded that the audited part of the Remuneration and Staff Report meets the requirements of the FReM.

Other findings

Accounting policy for non-current assets

38. The accounting policy in the accounts presented for audit stated that assets were revalued to current value each year using the appropriate producer price index as published by the Office for National Statistics. Our audit found that this policy was not in line with the one agreed by the Audit and Risk Committee in November 2018 and that non-current assets included in the annual accounts presented for audit had not been revalued. Management amended the accounting policy in the audited accounts to reflect the approved asset management policy and the valuation basis of non-current assets included in the accounts.

Asset register

39. The asset register provided to audit did not agree to the ledger or the accounts as it had not been updated for depreciation charged in March. Following discussion with management, an updated asset register was provided which agrees to the ledger and accounts.

40. We also noted that the asset register contains all assets owned by the Commission. Whilst it is important to keep an inventory of all of the Commission's assets this should be separate from the asset register maintained for capital accounting purposes.

Recommendation 2

The asset register maintained for capital accounting purposes should agree to the ledger and accounts and should not include assets which have not been capitalised.

Statement of cash flows

41. The statement of cash flows in the accounts presented for audit omitted the adjustment for depreciation (£1,000) required to reflect the non-cash nature of this transaction. The increase in trade and other receivables had been understated by £1,000 so that the cash and cash equivalents figure at the year agreed to the statement of financial position. Management agreed to amend the financial statements to correct this misstatement.

Changes to supplier bank details

42. Audit Scotland's Technical Bulletins regularly highlight examples of cases where fraudulent payments have been made due to weaknesses in controls over changes to suppliers' bank details. If appropriate procedures are not followed, there is a high risk that fraudulent payments will be made to unauthorised third parties.

43. Our interim audit identified that the Commission had ceased to maintain their supplier database and were using details on the invoices received to pay suppliers without checking bank details to those already held on file. This increases the risk that payments will be made to unauthorised third parties.

44. We recommended that the supplier database be reinstated and developed further audit procedures to gain additional assurance in this area for our 2018/19 audit opinion. No issues were identified.

How we evaluate misstatements

45. There were no material adjustments to the unaudited annual report and accounts arising from our audit. A number of presentational and monetary adjustments to the unaudited accounts were discussed with management who agreed to amend the financial statements. The net effect of the adjustments processed was to decrease staff costs by £16,000, increase other operating expenses by £20,000, reduce cash and cash equivalents by £6,000, reduce trade and other payables by £2,000 and reduce the general reserve by £4,000.

46. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management agreed to amend the financial statements for all of the presentational and monetary misstatements identified during the audit and so there are no unadjusted misstatements to bring to the attention of those charged with governance.

Follow up of prior year recommendations

47. The Commission has made limited progress in implementing our prior year audit recommendations. In particular, we noted that the Commission has yet to finalise a performance management framework, including key performance indicators against which to measure delivery of its objectives, or develop a medium to longer-term financial strategy. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1.

Part 2
Financial management and sustainability

Main judgements

The Commission effectively managed its finances in 2018/19.

The Commission has underspent its budget since its inception in 2017, and as at 30 June 2019, there had been minimal spend on a number of its strategic priorities during 2019/20. Close monitoring will be required to ensure that it makes the best use of its available resources during 2019/20.

Budgets are prepared and approved on an annual basis. The Commission could improve its financial planning arrangements by developing a long-term financial strategy supported by detailed medium-term financial plans. These plans should link closely to the outcomes set out in its Strategic Plan 2018-2021.

The Commission has taken reasonable steps to prepare for the impact of EU withdrawal.

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

Financial performance in 2018/19

48. The main financial objective for the Commission is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government.

49. The Commission's performance against Departmental Expenditure Limit (DEL) is shown in Exhibit 3. The Commission reported an outturn of £1.281 million for 2018/19, underspending its overall budget by £0.119 million and so met this objective in 2018/19.

Exhibit 3
Performance against Departmental Expenditure Limit (DEL) in 2018/19

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	1.400	1.400	1.281	(0.119)

Source: Audited Annual Report and Accounts and Budget Allocation and Monitoring letter 2018/19

50. The Commission drew down £1.315 million of its budget allocation during 2018/19, of which £34,000 was unspent at the year-end. The Scottish Government did not require this funding to be returned and so it has been added to reserves.

Short term financial planning

51. The 2019/20 budget was approved by the Commissioners as part of the 2019/20 Business Plan in March 2019. The agreed budget for 2019/20 of £1.5 million is £0.1 million (7%) more than the 2018/19 budget.

52. The Commission has underspent its budget since it was established in 2017. The budget paper notes that staff capacity was a key constraint in delivering the Commission's work programme during 2018/19 and that this is being addressed through additional recruitment in 2019/20.

53. The latest monitoring report notes that £0.260 million (17%) of the 2019/20 budget had been spent as at 30 June 2019. Budgets for a number of the Commission's strategic priorities (land ownership, land use decision-making and agricultural holdings) had minimal spend and had yet to be committed to individual projects as at 30 June 2019.

54. There is a risk that the Commission will not fully utilise its budget in 2019/20. We will continue to monitor this area as part of our 2019/20 audit.

Recommendation 3

The Commission should continue to keep its financial plans under close review during 2019/20 so that it is able to take early and informed decisions on how to make the best use of its available resources.

Changing landscape for public financial management and medium to long term financial planning

55. Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

56. The Scottish Parliament has introduced a new budget process which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

57. Last year we recommended that the Commission should develop a long-term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +). In response, the Chief Executive confirmed that annual financial planning would incorporate multi-year scenario planning with identification of likely impacts.

58. Limited progress was made on this during 2018/19. Although scenario planning was used, as part of the 2019/20 budget setting process, to model the impact of potential reductions in Scottish Government funding for 2019/20, the 2019/20 budget only covers a one-year period. Indicative figures have not been provided for future years.

59. We concluded that the Commission could improve its current financial planning arrangements by developing a medium to longer-term financial strategy.

Recommendation 5 (prior year)

A long-term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) should be developed. Plans should set out scenario plans (best, worst, most likely) with a clear assessment of the impact of budget assumptions on activity and any residual risks.

EU withdrawal

60. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies, and so it is critical that public sector bodies understand, assess and prepare for the likely impact on their business. As part of our 2018/19 audit we undertook a high-level review of the Commission's preparedness for EU withdrawal focusing on three key areas - people, funding and regulations:

- **People:** the Commission do not directly employ any non-UK EU nationals and so potential changes to migration are unlikely to affect the Commission
- **Funding:** all of the Commission's funding is received directly from the Scottish Government through Grant in Aid. The Commission is, therefore, not dependent on funding from EU programmes in order to deliver its objectives
- **Regulations:** there are no direct regulatory effects for the Commission expected from EU withdrawal.

61. The Chief Executive is a member of the Environment and Economic Leaders Group EU exit network and attended a number of meetings to discuss the possible impact of EU withdrawal on the Commission and other members of this group.

62. Overall, we concluded that the Commission has considered the likely impact of EU withdrawal on its business and has taken reasonable steps to prepare for it.

Dependency on key suppliers

63. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

64. The Commission awards research contracts to a variety of suppliers, almost exclusively UK based. We concluded that the risk to the Commission of key supplier failure is low as it is not reliant on any one supplier to deliver its objectives.

Good practice

65. The *Code of Audit Practice 2016* encourages auditors to identify good practice which in their opinion is worth sharing more widely. Our audit identified two areas of good practice within the Commission:

- Heads of Service submit formalised assurance letters to the Chief Executive to provide assurance over the systems of internal control in place to support the disclosures within the Governance Statement
- all members and staff complete registers of interest and members' registers are updated at least annually. This shows a good level of commitment to openness and transparency from both members and staff.

Appendix 1

Action plan 2018/19

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**Accounts preparation** We identified some areas where the accounts had not been prepared in line with the requirements of the FReM, relevant legislation and directions made by Scottish Ministers. There were also a number of misstatements identified including misclassification of transactions. **Risk:** a lack of financial experience and/or familiarity with the requirements of the FReM, relevant legislation and directions made by Scottish Ministers increases the risk that the annual report and accounts will include material misstatements.	Accounts preparation processes should be reviewed prior to the preparation of the 2019/20 annual report and accounts. The NAO disclosure checklist should be completed as part of the preparation of the annual report and accounts to demonstrate compliance with the FReM and should be included in the working papers package submitted to audit. Additional training should be provided to staff involved in the preparation of the Performance Report, Governance Statement and Remuneration and Staff Report. The account codes available within the financial system should be reviewed to ensure that they reflect the Commission's operations and financial reporting needs.	Accounts preparation process has been reviewed and updated accordingly. New finance system is in place for 2019/20 with revised account codes and controls in place to reduce the risk of misstatements. **Responsible officer** Head of Communications & Corporate Services **Agreed date:** Completed
2	**Asset register** The asset register provided to audit did not agree to the ledger or the accounts as it had not been updated to include depreciation charged in March. The asset register also contains all assets owned by the Commission i.e. it includes assets which have not been capitalised. **Risk:** the accounts are not in agreement with the accounting records resulting in qualification of the audit opinion.	The asset register maintained for capital accounting purposes should agree to the ledger and accounts and should not include assets which have not been capitalised.	Capitalised assets are now recorded on the finance system with non-capitalised assets recorded separately. **Responsible officer** Head of Communications & Corporate Services **Agreed date:** Completed

No.	Issue/risk	Recommendation	Agreed management action/timing
3	**Financial management** The Commission has underspent its budget since its inception in 2017. The latest monitoring report notes that budgets for a number of the Commission's strategic priorities (land ownership, land use decision-making and agricultural holdings) had minimal spend and/or had yet to be committed to individual projects as at 30 June 2019 **Risk:** there is a risk that the Commission will not fully utilise its budget in 2019/20 or that projects will be selected to maximise budget spend rather than delivery of its strategic objectives.	The Commission should continue to keep its financial plans under close review during 2019/20 so that it is able to take early and informed decisions on how to make the best use of its available resources.	Improved project planning and monthly monitoring of budget profile. **Responsible officer** Chief Executive **Agreed date** 31 March 2020
Follow up of prior year recommendations			
4	**Non-current assets** The annual report and accounts submitted for audit did not include any non-current assets and a capitalisation policy had not been prepared. Audit review of the list of assets held noted IT equipment totalling £6,000 had been purchased in 2017/18. In our opinion, this equipment should have been capitalised. **Risk:** there is a risk that the financial statements do not give a true and fair view of the Commission's financial position.	Management should ensure that assets are capitalised on a reasonable and consistent basis. Assets should be grouped into categories of assets held by the Commission.	Assets will be capitalised in line with adopted capitalisation policy. **Responsible officer:** Head of Communications & Corporate Services **Agreed date:** 31 March 2019 **2018/19 update** An asset management policy was developed and approved by the Audit and Risk Committee in November 2018. A number of assets were capitalised during 2018/19 in line with this policy. Audit testing did not identify any issues with the capitalisation of non-current assets. **Closed**

No.	Issue/risk	Recommendation	Agreed management action/timing
5	**Financial planning** The Commission's budgets are prepared and approved on an annual basis. Scenario planning is not used to model the impact of different funding levels. **Risk:** without medium to longer term financial planning (including scenario planning), there is a risk that the Commission is not fully prepared for potential changes in its funding levels and that opportunities and risks may not be fully realised/mitigated.	A long-term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) should be developed. Plans should set out scenario plans (best, worst, most likely) with a clear assessment of the impact of budget assumptions on activity and any residual risks.	Annual financial planning to incorporate multi-year scenario planning with identification of likely impacts. **Responsible officer:** Chief Executive **Agreed date**: 31 December 2018 **2018/19 update** Limited progress was made on this during 2018/19. Although scenario planning was used, as part of the 2019/20 budget setting process, to model the impact of potential reductions in Scottish Government funding for 2019/20, the 2019/20 budget only covers a one-year period. **Revised action** Multi-year budgeting to be incorporated into 2020-21 budget process and review of Strategic Plan. **Responsible officer** Chief Executive **Revised date:** 31 March 2020
6	**Performance management** The Commission continues to develop its performance management system. Work is ongoing to develop a set of key performance indicators (KPIs) to support monitoring of progress made in delivering the outcomes set out in the strategic plan (2018-2021) and the annual business plan. **Risk:** in the absence of a well-developed performance management framework, there is a risk that the delivery of the Commission's activities and strategic plan is not adequately monitored and reported**.**	The Commission should continue to develop its performance management framework including development of a range of key performance indicators against which to monitor its performance.	Complete performance management framework including KPIs. **Responsible officer:** Chief Executive **Agreed date:** 31 March 2019 **2018/19 update** The Commission has still to finalise its performance management framework and key performance indicators. **Revised action** The performance management framework will be submitted to the Board for approval and the KPIs incorporated into the quarterly reporting to the Board.

No.	Issue/risk	Recommendation	Agreed management action/timing
			Responsible officer Chief Executive **Revised date:** 31 December 2019

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the *Code of Audit Practice 2016*.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
1 Management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.	Detailed testing of journal entries. Review of accounting estimates. Evaluation of significant transactions that are outside the normal course of business.	No issues have arisen as part of our audit work that would indicate management override of controls affecting the outturn or year-end position.
2 Annual report and accounts preparation and audit The Commission does not employ a professionally qualified accountant and so is reliant on an external contractor to prepare the annual report and accounts on their behalf. The contractor has changed since the preparation of the 2017/18 annual report and accounts and there has also been a change in Office Manager who is our main contact for the audit process. There is a risk that the accounts will not be delivered to the required standards and by the agreed date, and that there will be delays in responding to audit queries which will impact on the delivery of the audit timetable.	Regular discussions with the Accountable Officer to identify any ongoing issues in respect of capacity and the impact these may have on the preparation and audit of the financial statements.	The accounts were delivered on time in line with our agreed audit timetable and were of an acceptable standard. There were no delays in responding to audit queries and the Interim Office Manager and other staff provided good support to the audit team in resolving any matters raised. Some areas of non-compliance with the applicable accounting framework were identified and these have been included in Exhibit 2 and paragraphs 27 to 36. Refer also to the 2018/19 action plan (points 1 and 2).

Audit risk	Assurance procedure	Results and conclusions
3 Capitalisation of assets Last year we reported that, prior to the preparation of the financial statements, the Commission did not have a policy for the capitalisation of non-current assets and that our audit had identified a number of assets which should have been capitalised but were not. We are aware that the Commission has purchased additional IT equipment during 2018/19. There is a risk that this capital expenditure is not accounted for correctly in the 2018/19 financial statements.	Review of disclosures and accounting policies in relation to non-current assets. Substantive testing of a sample of assets from the fixed asset register and depreciation schedule.	Our audit identified discrepancies between the accounting policy disclosed in the draft financial statements and the actual policy applied with regard to revaluation of assets. This was rectified in the audited accounts. We did not identify any issues with the capitalisation of assets or how capital expenditure was accounted for in the 2018/19 accounts. Improvements are required to the Commission's asset register – refer to paragraph 39 and the 2018/19 action plan (point 2).
4 New payroll system With effect from 1 April 2018 payroll services have been provided by Cairngorms National Park Authority (CNPA). There is a risk that the new payroll system is not operating as intended resulting in misstatement within the financial statements.	An initial systems review will be undertaken to understand the controls in operation within the Commission to ensure the completeness and accuracy of payroll calculations. Additional substantive testing of payroll transactions to ensure the new payroll system produces reliable information for the financial statements.	Our audit did not identify any issues with the controls in place over the interaction between the Commission's systems and those of the payroll provider. Additional substantive testing of payroll transactions was performed and concluded satisfactorily.
5 Estimation and judgements There is a significant degree of subjectivity in the measurement and valuation of the work-in-progress of research contracts at the year end. This subjectivity represents an increased risk of misstatement in the accounts.	Substantive testing of contracts in progress at year end. Review of project status and reasonableness of estimations and assumptions used when determining stages of completion.	Our substantive testing of contracts in progress at the year identified one contract where VAT had not been included in the accrual included in the accounts presented for audit. This was corrected in the audited accounts. Refer Exhibit 2, no. 4.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
6 Financial sustainability The Commission's budgets are prepared and approved on an annual basis. Scenario planning is not used to model the impact of different funding levels. Without medium to longer term financial planning (including scenario planning), there is a risk that the Commission is not fully prepared for potential changes in its funding levels and that opportunities and risks may not be fully realised/mitigated.	Review of budget setting process and 2019/20 budget paper presented to the Board. Comment within our annual audit report.	We reviewed the 2019/20 budget setting process and the budget paper presented to Commissioners in March 2019. No issues were identified. The 2019/20 budget was prepared on an annual basis. A medium to longer-term financial plan has yet to be developed. This matter has been included in the 2018/19 action plan (point 5).

Audit risk	Assurance procedure	Results and conclusions
7 Performance management Last year we reported that the Commission had yet to finalise its performance management framework and associated key performance indicators (KPIs). In the absence of a well-developed performance management framework, there is a risk that delivery of the Commission's activities and the objectives set out in the strategic plan is not adequately monitored and reported.	Review of the performance management framework and associated KPIs. Comment within our annual audit report.	The Commission has still to finalise its performance management framework and key performance indicators. Refer to the 2018/19 action plan (point 6) for an update on when this is scheduled for completion.
8 Budget monitoring The Commission continues to refine its approach to budget monitoring and revised the format of its quarterly budget monitoring reports during 2018/19. The latest report (as at September 2018) highlights that £0.2 million (15%) of the budget is uncommitted but it is not clear how much of this will be spent by the year end. There is a risk that projects are selected to maximise budget spend rather than impact.	Review of quarterly budget monitoring reports and the more detailed budget monitoring papers held by the management team. Review of outturn against budget and profile of spend during the year. Comment within our annual audit report.	We reviewed the monthly monitoring reports sent to the sponsor body at the Scottish Government and the more detailed budget monitoring reports discussed by the management team. No issues were identified. The Commission underspent against its resource allocation for 2018/19. Refer to paragraphs 48 and 49 for details. Audit testing did not identify any instances of projects being selected to maximise budget spend.

Appendix 3

Summary of national performance reports 2018/19

2018/19 Reports

Local government in Scotland: Challenges and performance 2018	**Apr**	
Councils' use of arm's-length organisations	**May**	Scottish Fire and Rescue Service: an update
Scotland's colleges 2018	**Jun**	
	Jul	The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing	**Aug**	Major project and procurement lessons
Children and young people's mental health	**Sept**	Superfast broadband for Scotland: further progress update
NHS in Scotland 2018	**Oct**	
Health and social care integration: update on progress	**Nov**	Local government in Scotland: Financial overview 2017/18
	Dec	
	Jan	
	Feb	
	Mar	Local government in Scotland: Challenges and performance 2019

Scottish Land Commission

2018/19 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or **info@audit-scotland.gov.uk**

For the latest news, reports and updates, follow us on:

AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

AS.2.0