

Scottish Forestry

Management report 2019/20



 AUDIT SCOTLAND

Prepared for Scottish Forestry
July 2020

Audit findings

Introduction

1. This is our first Scottish Forestry Management Report following the devolution of forestry. Scottish Forestry was established on 1 April 2019 as a new agency of the Scottish Government.
2. This report contains a summary of the key issues identified during the interim audit work carried out at Scottish Forestry.
3. This work included assessing the key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We also undertook some early substantive testing of Forestry Grant Scheme (FGS) expenditure.
4. 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 Scottish Forestry:
 - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
 - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
 - complies with established policies, procedures, laws and regulations.
5. We have also, under the [Code of Audit Practice](#), carried out work on the wider dimension audit. This included an overview of budget monitoring processes and aspects of organisational change.

COVID-19

6. Public bodies are under exceptional pressure as they manage the impact of the pandemic and guidance and deadlines for financial reporting have been amended to reflect this. The extension of these deadlines will impact on timings for audit work and reporting.
7. Our approach to the audit will be flexible, pragmatic and consistent. Sound financial management and effective governance are more important than ever, and audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances. Our work needs to reflect the impact of COVID-19 on public services but also maintain a focus on the other key challenges facing Scotland's public sector. We continue to prioritise quality and independence.
8. We began our interim audit on-site in February 2020. In accordance with the developing COVID-19 guidance, we began to work from home from the middle of March. Staff within Scottish Forestry also started to transition towards home working at that point.
9. Our work was largely complete at that time with some matters remaining unresolved in relation to payroll and general ledger. As such, our audit work was extended into April/May 2020.

10. We remained in regular dialogue with management throughout this period to discuss the interim audit and the potential impact on the year-end financial statements audit.

11. We are grateful to management for their cooperation to allow us to progress our audit work during this difficult time.

Conclusion

12. Our walkthrough of the key financial controls is complete. We identified some controls weaknesses as summarised in [Exhibit 1](#). The management actions taken and/or proposed will further strengthen the control environment. In the areas we examined, we are content that that Scottish Forestry's internal controls were operating effectively during 2019/20.

13. As a result of the issues identified we shall carry out additional testing, as noted in Exhibit 1, to enable us to take planned assurance for our audit of the 2019/20 financial statements.

14. Our work on the wider dimension audit is ongoing. Based on the work undertaken to date on the wider dimension audit, we have not identified any areas of concern which require reporting at this stage. We shall report our findings from our wider dimension work in our Annual Audit Report.

Work summary

15. Our 2019/20 work reviewed key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, our testing covered budget monitoring and control, feeder system reconciliations and controls for preventing and detecting fraud over grant expenditure.

16. Our early substantive work involved reviewing a sample of 2019/20 FGS grants claimed during the year.

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 Scottish Forestry.

18. 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.

Exhibit 1

Key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
<p>1. General ledger user access</p> <p>Robust access controls are essential to ensure the integrity of financial information and segregation of duties within key financial systems.</p> <p>We tested a sample of user access rights and reviewed user profiles to gain an understanding of user access. The following points were noted:</p>	<p>Management and maintenance of the finance system (eFinancials) is undertaken by FLS. SF and FLS are in the process of identifying and implementing a new system, which will include the strengthening of these controls that have been identified here.</p>	<p>Head of Finance</p> <p>April 2022</p>

Issue identified	Management response	Responsible officer / target date
<ul style="list-style-type: none"> all users can input and authorise journals up to £1m all users can raise and authorise purchase orders and invoices up to £1m all users can raise and authorise sales invoices and credit notes up to £4m there is no difference between senior management and more junior staff access rights there is no ongoing review of user access to ensure it remains appropriate. <p>We acknowledge that there are a range of mitigating controls in place including review and authorisation of paper journals and payment runs together with general budgetary control.</p> <p>Access to the general ledger (eFinancials) should be appropriate to the user's role.</p> <p>Risk. There is a risk of error or irregularity not being identified due to inappropriate user access.</p> <p>Planned audit action. We will undertake adequate substantive testing of journals, purchase and sales invoices, and credit notes to provide sufficient assurance that they are accurate and valid.</p>	<p>There are other mitigating controls in place to reduce the risk of users inputting or authorising amounts in excess of their limits in addition to those noted by the auditor.</p> <p>Through the Scheme of Delegation limits are set based on either job title or pay band that clearly defines the financial values which staff can approve etc invoices and journals. This is monitored through regular spot checks by the conservancy and Finance visits.</p>	
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<p>2. Changes to supplier bank details</p> <p>In prior years we identified several weaknesses in relation the controls for changing supplier bank details. Management agreed to reiterate the guidance to staff and in January 2020 new guidance was issued.</p> <p>From testing a sample of new supplier bank details, we identified two instances of change forms having been completed with no evidence attached to support the request. In one instance the change form referred to February 2020, after the new guidance was issued.</p> <p>Risk. There is a risk of incorrect or fraudulent payments being made to individuals / suppliers.</p> <p>Planned audit action. We will increase our year end samples of expenditure and target new suppliers.</p>	<p>Whilst new guidance was recently issued, it did not include the original notification, letter, invoice or BACs notification.</p> <p>The guidance will be amended to include this so the full journey can be recorded.</p> <p>This will be supplemented by additional testing by both the conservatory and the Finance and Business Support Team to ensure compliance of the policy.</p>	<p>Senior Finance Manager September 2020</p>
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<p>3. Bank: access to bankline</p> <p>The banking system for Scottish Forestry, Bankline, was managed by the Finance team at Forestry and Land Scotland (FLS) until November 2019 when a full</p>	<p>The banking process has not fully transitioned over to SF. Therefore when the new the Senior Finance Manager is appointed they will work</p>	<p>Senior Finance Manager December 2020</p>

Issue identified	Management response	Responsible officer / target date
<p>handover of the process was passed to the Finance and Business Support section within Scottish Forestry.</p> <p>The current Bankline user access list shows that there are still five FLS Finance team members designated as users and authorised signatories for the Scottish Forestry bank account.</p> <p>Risk. There is a risk of inappropriate access resulting in incorrect or fraudulent transactions being undertaken on Scottish Forestry's bank account.</p> <p>Planned audit action. We will review the year end bank reconciliation and sample test reconciling items if necessary.</p>	<p>with the bank and FLS to move SF over to a separate Bankline, which will eliminate the risk.</p>	
<h4>4. Payroll: employee verification</h4>		
<p>No regular employee verification exercise was undertaken in 2019/20 to confirm staff on the payroll actually exist. Management advised that a new employee verification check is to be introduced from 2020/21 which will require budget holders to confirm all staff charged to their cost centres on a quarterly basis.</p> <p>Risk. Without regular confirmation of the existence of staff, there is a risk of fraud or error in that 'ghost' employees may be included in the payroll, or that leavers may not be timeously removed from the payroll.</p> <p>Planned audit action. We will increase and extend our year end payroll testing to cover the existence of employees.</p>	<p>There is a separation of process between HR and Payroll both manually and in iTrent so that the risk of 'ghost' employees being created is minimised.</p> <p>Due to the Covid outbreak, plans for budget holders to check their HR staffing records quarterly have been affected, although this will be in place from Q2 in 2020/21.</p> <p>As part of our mitigating controls, office managers have access to COGNOS reports which contains certain payroll information including name, salary, overtime for budget monitoring purposes. This allows them to review on a monthly basis, the payments for staff and identify for any incorrectly coded staff and for "ghost employees".</p>	<p>Deputy Head of HR (FLS) August 2020</p>
<h4>5. Early substantive grant testing (FGS grants)</h4>		
<p>Scottish Government Rural Payments and Inspections Directorate (SGRPID) provide details of the total FGS payments made on behalf of Scottish Forestry each month to finance staff who then input the information into the general ledger via journal entry.</p> <p>Our testing of a sample of grant claims identified that the EU Forestry Grant Scheme element of the November journal was overstated by £702k. This resulted in an overstatement to both FGS EU expenditure and income of £702k.</p> <p>This was due to a manual error and has now been corrected.</p>	<p>The information taken from the RPID backup will now be input into an amended "Invoice Split" spreadsheet, which will then drive the posting of the invoice and the EU income journal. There will also be checks to ensure that the percentage of the EU Income falls within the expected parameters. This will reduce the chance of human error.</p> <p>The approver of the journal will also check the spreadsheet and back-up to fully ensure that the correct values are posted so as to not inflate or deflate the income or expense.</p>	<p>Senior Finance Manager (Interim) July 2020</p>

Issue identified	Management response	Responsible officer / target date
Planned audit action. Our year end journal testing will include focussed testing of monthly grant recharge journals to ensure accuracy.		
Source: Audit Scotland		

19. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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