

Forestry and Land Scotland

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Forestry and Land Scotland and the Auditor General for Scotland

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Key messages

2020/21 annual report and accounts

- 1 The financial statements of Forestry and Land Scotland give a true and fair view of the financial position and the net income for the year. Our audit opinions are unmodified.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 3 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 Forestry and Land Scotland operated within its budget in 2020/21.
- 5 There were some weaknesses identified in the operation of internal controls during 2020/21. These included the authorisation of journal entries and controls over changes to supplier details. No significant weaknesses were identified which could affect Forestry and Land Scotland's ability to record, process, summarise, and report financial and other relevant information.
- 6 Although work is progressing, Forestry and Land Scotland have yet to finalise a longer-term financial strategy, supported by clear and detailed financial plans.

Governance and transparency, and value for money

- 7 Appropriate governance arrangements were in place during 2020/21. Governance arrangements operating throughout the Covid-19 pandemic were appropriate and supported effective working.
 - 8 Forestry and Land Scotland has appropriate arrangements in place to achieve and demonstrate best value.
 - 9 Performance monitoring has continued throughout 2020/21. Forestry and Land Scotland achieved nine out of its 16 key performance indicators. Progress in year has been impacted by the pandemic.
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- 10** Forestry and Land Scotland has appropriate arrangements in place to demonstrate compliance with the Equality Act 2010 in line with applicable regulations.

Introduction

1. This report summarises the findings from our 2020/21 audit of Forestry and Land Scotland.
2. The scope of our audit was set out in our annual audit plan presented to the March 2021 meeting of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of the annual report and accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The main elements of our audit work in 2020/21 have been:
 - an audit of the 2020/21 annual report and accounts including the issue of an independent auditor's report setting out my opinions
 - a review of the key financial systems
 - consideration of the four audit dimensions.

Adding value through the audit

4. We add value to Forestry and Land Scotland through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
 - sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides.

Responsibilities and reporting

5. Forestry and Land Scotland 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 the Scottish Ministers.
6. Forestry and Land Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable the organisation to successfully deliver its objectives.

7. 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. As public sector auditors we give independent opinions on the annual report and accounts.

8. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from our audit. 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](#). It sets out specific recommendations, the responsible officer(s) and dates for implementation. It also includes any outstanding actions raised previously and progress against these.

Auditor Independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and that the 2020/21 audit fee of £99,590 as set out in our annual audit plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

14. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

The financial statements of Forestry and Land Scotland give a true and fair view of the financial position and the net income for the year. Our audit opinions are unmodified.

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

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

Our audit opinions on the annual report and accounts are unmodified

15. The Audit and Risk Committee agreed on 23 November 2021 that the annual report and accounts for the year ended 31 March 2021 should be passed to the Accountable Officer for signing. The Accountable Officer then approved the annual report and accounts on 24 November 2021. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- 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.

The annual report and accounts were signed off in line with the agreed timetable

16. The unaudited annual report and accounts were received on 18 June 2021, in line with the timetable agreed with management. We are pleased to note that the unaudited annual report and accounts and supporting working

papers were of a good standard, and the finance team provided good support to the audit team.

17. Our audit was completed remotely due to the ongoing restrictions as a result of the Covid-19 pandemic. We kept in regular communication with management which helped ensure the audit process ran smoothly.

18. Our audit identified a number of presentational and disclosure issues. These were discussed with finance staff and subsequently amended in the audited financial statements.

Overall materiality was £40.6 million

19. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and the nature of a misstatement in the financial statements. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and we concluded that it remained appropriate. Materiality levels are summarised in [Exhibit 1](#).

Exhibit 1

Quantitative materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of the total net book value of biological assets, land and the forest estate for the year ended 31 March 2021.	£40.6 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of overall materiality.	£24.3 million
As the value of Forestry and Land Scotland’s biological assets, land and the forest estate are significantly higher than other account areas, we have set a separate performance materiality level for other assets and liabilities, income, and expenditure. This has been set at 75% of 2% of net expenditure before gain or loss on biological assets and will be applied to all account areas other than biological assets, land, and the forest estate.	£856,000
Reporting threshold – We are required to report to those charged with governance on all adjusted misstatements more than the ‘reporting threshold’ amount. This has been calculated at 1% of overall materiality, capped at £100,000.	£100,000

Source: Forestry and Land Scotland Annual Report and Accounts 2020/21, Audit Scotland.

The main risks of material misstatement were identified at the planning stage

20. A description of the assessed risks of material misstatement in the annual report and accounts and any wider dimension audit risks that were identified during the audit planning process is included at [Appendix 2](#). These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

21. We have reported on issues from our work on the risks highlighted in our [2020/21 annual audit plan](#), issued in March 2021. These relate to:

- management override of controls;
- the risk of fraud over income recognition; and
- accounting estimation and judgement.

Significant findings from the audit of the annual report and accounts

22. 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. Qualitative aspects include accounting policies, accounting estimates and financial statements disclosures. The significant findings from our audit are summarised in [Exhibit 2](#) below and include those in relation to qualitative aspects.

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Income accruals - renewables</p> <p>Trade receivables on the statement of financial position record income attributable to the financial year that had not been received by 31 March 2021. A significant element of these accruals relates to income receivable from renewable energy leases (windfarm and hydroelectric schemes) due to the time taken for the amounts due to be confirmed.</p> <p>An established methodology is in place for estimating the income due for the final period of the financial year in respect of renewable energy schemes. Audit testing identified that the actual income ultimately received during the year but relating to windfarm leases in respect of 2019/20 significantly exceeded the amount that had been estimated by approximately £3.1 million.</p> <p>A similar estimation approach was applied for 2020/21. We identified that based on amounts confirmed to date, accrued renewable income was understated by at least £824,000. While this information was not available at 31 March 2021, we considered it to be an adjusting event after the reporting period, in line with accounting standards.</p>	<p>Residual windfarm income relating to amounts due in 2019/20 and subsequently confirmed as receivable was appropriately recognised in 2020/21.</p> <p>We reviewed the estimation methodology used to determine the amount to be accrued in relation to income from windfarm leases.</p> <p>Management have not adjusted the accrual to reflect residual invoices received before the accounts were authorised for issue. While the income accrued remains understated, we are content that the potential amounts involved are not material to our audit opinions. We have reported this as an uncorrected misstatement in Appendix 3.</p> <p>Management should review and update the estimation methodology in advance of the preparation of the 2021/22 financial statements. Management should also review the appropriateness of estimates previously made when determining the value of other renewable income accruals.</p> <p>We have requested and received assurances from the Accountable Officer in the ISA 580 letter of representation that the estimated amounts of windfarm income accrued is reasonable based on the best available information when the accounts were authorised for issue.</p> <p>Recommendation 1 – Appendix 1</p>

Issue	Resolution
<p>2. Income from mineral royalties</p> <p>Forestry and Land Scotland receive income from royalties for stone and minerals extracted from quarries owned by the agency. Audit testing and subsequent discussions with management identified income of £428,000 relating to the prior year that had not been recognised in 2019/20. This income was accounted for in 2020/21 when received. Finance staff were not aware that this income was due in advance of the 2019/20 financial year end.</p>	<p>We undertook additional work to confirm that this was an isolated incident. This included additional income testing, and a review of all income received in relation to mineral royalties.</p> <p>We recommend that a review of the arrangements in place for accounting for income streams managed out with the core finance function is completed.</p> <p><u>Recommendation 2 – Appendix 1</u></p>
<p>3. Valuation of biological assets and the forest estate</p> <p>The statement of financial position records biological assets and the forest estate with a value of £3,634 million at 31 March 2021. This is an increase of £586 million from 2019/20.</p> <p>The fair values of these assets are based on market information and, therefore, subject to the volatility of market conditions.</p> <p>Due to this volatility, there is an inherent risk over these valuations, and management will need to continue to review the market performance and associated impact of this on the asset valuations.</p> <p>The professional valuer also highlighted the importance of keeping these valuations under regular review due to market volatility.</p>	<p>We have reviewed the calculations underpinning the valuations, and substantively tested the application of valuation information provided by the professional valuer.</p> <p>We reviewed correspondence between management and the valuer and liaised directly with the valuer as part of our audit.</p> <p>We concluded that the valuations included in the annual report and accounts are a fair reflection of the asset values at 31 March 2021.</p> <p>We have requested and received assurances from the Accountable Officer in the ISA 580 letter of representation that the carrying value of these assets in the financial statements has been appropriately classified and is reflective of their fair value.</p>
<p>4. Impact of Covid-19 on asset valuations</p> <p>External, professional valuers provide valuations that are applied in the measurement of the assets recorded in Forestry and Land Scotland's financial statements.</p> <p>The final valuation reports provided by Wardell Armstrong, Galbraith and Avison Young all include a 'material valuation uncertainty' clause. These highlight that a higher degree of caution should be attached to the valuation than would normally be the case.</p>	<p>We discussed this matter with management who included additional disclosure in Note 2 'Critical accounting estimates and judgements.' The revised disclosure outlines that, as a result of the material valuation uncertainty, less certainty, and a higher degree of caution should be attached to these specific valuations than would normally be the case.</p> <p>The value of the assets affected by the material valuation uncertainty clauses at 31 March 2021 is £13.3 million. We are</p>

Issue	Resolution
<p>The unaudited accounts referred to the impact of Covid-19 being considered where possible in arriving at accounting estimates and judgements. However, no specific reference to the clauses in the valuation reports, or an assessment of the impact on the asset valuations was included.</p>	<p>content that given the value of assets affected, this issue is not fundamental to the users' understanding of the accounts.</p> <p>We are content with the disclosures made in the audited accounts and have sought and received the Accountable Officer's assurances on management's assessment of the fair value of assets in the ISA 580 letter of representation.</p>
<p>5. Prior period adjustment</p> <p>Note 23 of the financial statements discloses a prior period adjustment of £1.1 million. The note refers to income received from third parties that was recognised in the statement of comprehensive net expenditure in prior years which should have been deferred and carried forward for application in future years. The relevant comparator figures in the financial statements have been restated to reflect this adjustment.</p>	<p>Management advised that they had undertaken a full review of projects spanning multiple financial years. Following this review, management concluded that a prior period adjustment was required. We have reviewed this adjustment and the associated disclosures in the annual report and accounts. We are comfortable that the adjustment made does not have a material impact on either the 2019/20 or 2020/21 financial statements.</p> <p>Audit testing of income transactions included consideration of the timing of income recognition. We reviewed a sample of balances included in deferred income as at 31 March 2021 and concluded that these had been accounted for correctly.</p>

Source: Audit Scotland

Our audit identified misstatements of £6.0 million of the amounts recognised in the accounts, of which £5.1 million were adjusted

23. Total misstatements of the amounts recognised in the accounts identified from our audit work were £5.96 million. These relate largely to:

- an adjustment of £2.3 million in relation to a legal claims provision;
- an adjustment of £2.4 million required to the valuation of non-current assets; and
- the understatement of accrued renewable income by at least £824,000.

24. We also identified a number of items that had been misclassified between different account lines, resulting in total misstatements of £10.1 million. These related mainly to the classification of corporate and business services overheads in the statement of comprehensive net expenditure, as discussed at paragraph 35 below.

25. We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety and do not indicate systemic error. It is our responsibility to request that all misstatements, other than those below our 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.

26. Management have adjusted for all identified misstatements in excess of the reporting threshold except for the item highlighted at issue 1 in [Exhibit 2](#).

27. The cumulative impact of the adjustments processed is a decrease in net income for the year of £2.1 million and a decrease in net assets of £4.4 million.

28. The effect of the uncorrected misstatement is set out in [Appendix 3](#). If this adjustment had been processed, the impact would have been to increase both net income and net assets by £0.824 million as detailed in the appendix below.

Our audit identified a number of other findings

29. Our audit identified a number of other matters to draw to your attention.

Non-current assets

30. As reported in our [2019/20 annual audit report](#), a number of historic practices and processes established by Forestry and Land Scotland's predecessor organisation, Forest Enterprise Scotland, continue to be applied. It is important that Forestry and Land Scotland continues to review the suitability of accounting practices and processes applied to its own circumstances.

31. We acknowledge that management have reviewed the valuation methodology for biological assets and the forest estate, and the accounting treatment of vehicles, machinery and equipment and office machinery. Additional areas for management's attention include:

- **Infrastructure assets:** expenditure on infrastructure assets is not recognised in the value of non-current assets in the statement of financial position. A review of this area was recommended in the prior year, and agreed with management.
- **Intangible assets:** IAS 38 Intangible Assets states that an intangible asset should be recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the costs can be measured reliably. All costs incurred on intangible assets such as software packages and licences are expensed to the statement of comprehensive net expenditure. It is important that a review of the accounting for intangible assets is progressed, as investment in developing the new Management Information Platform continues increasing the amounts involved.

- **Fellings:** The value of felled timber (2020/21: £61.7 million) is calculated based on a legacy methodology, using data held in the Sales Recording Package (SRP) system. This is deducted from the carrying value of biological assets and recognised as an expense to reflect the timber felled and sold throughout the year. Management should review the calculation basis to ensure the value of felled timber draws appropriately on the data available from SRP.

Recommendation 3

The accounting practices applied in the accounting for non-current assets should be reviewed to ensure they are appropriate to Forestry and Land Scotland. Particular attention should be given to infrastructure assets, intangible assets, and the calculation of the value of felled timber.

Appendix 1, Recommendation 3

32. Currently, the information used to inform the non-current assets disclosures is prepared from a number of different workbooks and schedules as opposed to a fixed asset register. The Management Information Platform will encompass a new financial system. Management should take this opportunity to consider the introduction of an asset register as part of this project.

Accounting for leases

33. Previously, adjustments were made to the value of non-current assets for leasehold land, where Forestry and Land Scotland leased the land from third parties but had full ownership of the biological assets growing on this land. This adjustment is no longer made, to reflect the rights and obligations that Forestry and Land Scotland have over the land and that the lease terms are in excess of 100 years. We have reviewed this change and the leases involved and are satisfied that the valuation in the financial statements is an accurate reflection of the assets held by Forestry and Land Scotland.

34. A new accounting standard, IFRS 16 – Leases will be implemented from 1 April 2022 and will supersede all existing accounting standards on leases. It is likely to result in uniform accounting treatment for leases, removing the distinction between operating and finance leases. Forestry and Land Scotland have a number of lease agreements, and therefore, there will be an impact on the financial statements when IFRS 16 takes effect. Management should prioritise their review of the impact of IFRS 16 during 2021/22 and consider the arrangements in place for accounting for leases in advance of the implementation date.

Statement of comprehensive net expenditure

35. The expenditure presented in the unaudited annual report and accounts was not allocated on a basis consistent with the comparator figures. This was as a result of overhead costs not being allocated across the various areas of expenditure presented in the statement of comprehensive net expenditure. This was identified during the audit process and management subsequently

revised the expenditure allocation for 2020/21. This is now consistent with the comparator figures.

Carbon units

36. Forestry and Land Scotland have a five-year corporate partnership with Shell UK Ltd. to contribute to the effort to tackle climate change. This agreement will provide Forestry and Land Scotland with £5 million in funding for the creation of woodland and peatland restoration. As a result, carbon units will be created which Shell can use or sell. Income received under this agreement thus far has been deferred as Forestry and Land Scotland are not yet selling carbon units. Management should consider any implications for accounting for carbon units and the disclosures required, including when income is recognised, as work progresses in this area.

Data analytics were used in audit sampling

37. We used data analytics as part of our planned audit approach. Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as “*the science and art of discovering and analysing patterns, deviations and inconsistencies ... in the data underlying ... an audit ... for the purpose of planning and performing an audit.*” Such techniques provide ways of dealing with high volumes of transactions as well as complexity. They also enhance audit quality and efficiency.

38. As part of our work, we obtained detailed transaction downloads from the general ledger and SRP. The ledger data was used for substantive testing during the financial statements audit and was subjected to automated routines to help identify unusual or risky transactions for further investigation. The SRP data was compared to the ledger data in order to provide assurance over the completeness and accuracy of the accounting records and was used to substantively test timber income. The procedures carried out provided increased assurance over the completeness of the information in the accounts, and the allocation to account areas.

Some progress was made on prior year recommendations

39. Forestry and Land Scotland has made some progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Main judgements

Forestry and Land Scotland operated within its budget in 2020/21.

There were some weaknesses identified in the operation of internal controls during 2020/21. These included the authorisation of journal entries and controls over changes to supplier details. No significant weaknesses were identified which could affect Forestry and Land Scotland's ability to record, process, summarise, and report financial and other relevant information.

Forestry and Land Scotland operated within its budget in 2020/21

40. The main financial objective for Forestry and Land Scotland is to ensure that the financial outturn for the year is within the agreed budget for the year.

41. Regular budget monitoring reports are prepared by Forestry and Land Scotland and discussed by the Executive Team. The report at 31 March 2021 reports net managed income of £2.2 million against a net managed expenditure budget of £18.7 million. This represents an underspend of £20.9 million against budget.

42. Income was in excess of budget (£26 million). This was primarily due to the performance of the timber market and the rising demand for, and unit prices of timber.

Forestry and Land Scotland also receive funding from the Scottish Government

43. Forestry and Land Scotland also receive annual funding from the Scottish Government. During 2020/21, they received £22.4 million. £15.2 million of this related to the annual subsidy limit, with the remainder relating to funding to support the impact of Covid-19 and the re-development of Newton Nursery.

The financial statements record net assets of £4.2 billion

44. The statement of financial position summarises what is owned and owed by Forestry and Land Scotland. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It

shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

45. The financial statements record net assets of £4,198 million, an increase of £690 million from 31 March 2020. This is largely attributable to the impact of the revaluation of non-current assets.

Budget processes were appropriate

46. We reviewed Forestry and Land Scotland's budgetary control and monitoring arrangements. From our review of budget monitoring reports, committee papers and minutes and attendance at the Audit and Risk Committee, we concluded that senior management and members receive regular, timely and up to date information on the financial position.

47. As noted previously, the current budget monitoring reports do not give a full picture of income received and exclude the annual subsidy limit from the Scottish Government when reporting income. The expenditure funded by the subsidy is reflected in the reporting of expenditure against budget.

Financial systems of internal control are operating effectively

48. Our audit work involves identifying and inspecting the key controls within the systems we regard as significant in producing the financial statements. Our objective is to gain assurance that Forestry and Land Scotland has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

49. Our findings from the review of systems and internal controls were reported in the management report presented to the Audit and Risk Committee in September 2021. The findings outlined in this report informed our year-end audit testing and additional testing was carried out where required. Weaknesses identified included authorisation of journal entries and controls over changes to supplier details.

50. Overall, we concluded that while there were weaknesses identified in the system of internal control, as noted above, no significant internal control weaknesses were identified during the audit that would affect Forestry and Land Scotland's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements

We considered the work of internal audit

51. Forestry and Land Scotland's internal audit function is provided by the Scottish Government's Directorate of Internal Audit and Assurance. The Public Sector Internal Audit Standards require that an annual internal audit opinion and report that can be used to inform the annual governance statement is provided. The opinion provided by internal audit in 2020/21 is that of 'reasonable assurance,' which is defined as "some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place, but not of a significant nature."

52. Internal audit arrangements were reviewed in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit. We concluded that we were able to place reliance on the work of internal audit and considered their work in respect of our wider dimension audit responsibilities.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

53. Forestry and Land Scotland is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption and to ensure that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

54. We have reviewed the arrangements in place to maintain standards of conduct including a review of the staff handbook, members' code of conduct and the whistleblowing policy. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

55. We concluded that there are appropriate arrangements in place for the prevention and detection of fraud, error, and irregularities. We are not aware of any specific issues that we are required to bring to your attention.

National Fraud Initiative matches should be investigated

56. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Computerised techniques are used to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

57. Forestry and Land Scotland's progress in demonstrating evidence of investigating matches on the NFI system has been slower than expected. The NFI exercise contributes to the security and transparency of public sector finances. We encourage management to progress the review of the identified matches, and we shall review the progress made as part of our 2021/22 audit, in advance of Audit Scotland's next national report on the outcomes from the NFI exercise.

3. Financial sustainability

Financial sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

Although work is progressing, Forestry and Land Scotland have yet to finalise a longer-term financial strategy, supported by clear and detailed financial plans.

Budgeted net expenditure for 2021/22 is £3.5 million

58. Forestry and Land Scotland's expenditure is met largely by income generated from commercial activities, together with an annual subsidy provided by the Scottish Government.

59. Budgeted net expenditure for 2021/22, excluding Scottish Government funding, is £3.5 million (2020/21: £19.8 million). The annual subsidy for 2021/22, as set out in the Scottish Government's 2021/22 budget, is £37.5 million (£15.4 million resource and £22.1 million capital), an increase from the initial 2020/21 funding (£17.2 million). This increase is mainly attributable to the capital funding from the Scottish Government for the re-development of Newton Nursery.

60. The volatility of the timber market and the impact on income generation continues to present challenges in maintaining the financial sustainability of Forestry and Land Scotland. This is further exacerbated by the impact of EU exit and the Covid-19 pandemic. Careful management of finances and cash balances is required in order to manage the unpredictability of the financial pressures faced.

61. For the purposes of its accounts, Forestry and Land Scotland is classified by the Office of National Statistics as a public corporation. This classification is based on the nature of activity within the business and the high proportion of business trading. The classification enables the agency to build and retain financial reserves across financial years to sustain and deliver outcomes.

Work on longer-term financial planning is progressing

62. As reported in previous annual audit reports, a longer-term financial plan is not yet in place for Forestry and Land Scotland.

63. Work has been progressing to develop a long-term sustainable business model for the agency, to allow for flexibility and resilience. This forms an integral part of the transformation of Forestry and Land Scotland, where consideration is being given on how the business is managed and its outcomes are delivered. A business sustainability action plan was agreed by

the Executive Team in July 2020. A key area of focus is on improving business and financial planning processes, moving towards a five-year plan, as opposed to an annual financial planning cycle. This aims to create a sustainable organisation which is financially secure and can adapt to changing economic and climate challenges.

64. The majority of the income received by Forestry and Land Scotland is receipts from commercial activities. As such, this income is contingent on market conditions and demand for services supplied. The volatility in market conditions and the unpredictability of the income generated presents a risk to the financial sustainability of the agency.

65. In addition, EU exit and the longer-term effects of the Covid-19 pandemic may have a financial impact on Forestry and Land Scotland. Although timber prices have remained strong given the reliance on domestic markets and increased demand for timber, the impact of labour shortages and on securing a workforce for both Forestry and Land Scotland and its contractors may impact on the sustainability of operations. There is also a risk that longer-term contracts may include agreed rates and conditions that are no longer viable.

66. It is too early to fully determine the impact of EU exit and the pandemic, however, there is a risk that should suppliers become unable to deliver, Forestry and Land Scotland may not be able to deliver on their programme of work, which in turn impacts on the amount of timber harvested and the corresponding income received. This is a key area of risk that the Executive Team continue to monitor.

67. These factors further highlight the need for a robust longer-term financial strategy, and management should continue to prioritise the development of this. As recommended in previous annual audit reports, the strategy should be supported by clear, detailed financial plans, and align with the corporate plan outcomes.

Recommendation 4

The development of a longer-term financial strategy should be progressed. A financial strategy should be prepared, supported by clear and detailed financial plans, and should clearly align with corporate plan outcomes to support the financial sustainability of the agency.

Appendix 1, Recommendation 4

Cash balances at 31 March 2021 were £84.8 million

68. The statement of financial position at 31 March 2021 records cash balances of £84.8 million (2019/20: £62.1 million). This increase reflects the continuing increase in income receipts as a result of strong market conditions.

69. Forestry and Land Scotland are permitted to hold cash reserves, in line with the reserves policy set out in their framework document. This recognises that reserves exist to manage uncertainty and service long-term needs.

70. Not all reserves are available for spending. Forestry and Land Scotland have recognised two areas of reserve in their policy. Restricted reserves are those held for a specific purpose, and unrestricted reserves are those which can either be earmarked where the income is tied to a specific activity, or liquidity reserves that enable the agency to manage the risks it faces.

71. As disclosed in the annual report and accounts, Forestry and Land Scotland have identified restricted reserves of £28 million and earmarked reserves of £38 million. The remainder are held for liquidity purposes.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

Appropriate governance arrangements were in place during 2020/21. Governance arrangements operating throughout the Covid-19 pandemic were appropriate and supported effective working.

Appropriate governance arrangements are in place

72. The Chief Executive of Forestry and Land Scotland, as Accountable Officer, is personally accountable to Scottish Ministers for the performance of the organisation and the delivery of its functions. The Chief Executive is supported by the Strategic Board, the Executive Team and the Audit and Risk Committee.

73. The Strategic Board is comprised of Executive Directors and Non-Executive Advisors. The role of the Strategic Board is to support and advise the Chief Executive on matters such as strategic vision, the effectiveness of risk management arrangements, governance, and internal control.

74. The Executive Team supports the Accountable Officer with the day to day running of the organisation, providing advice and knowledge on professional, technical, and regional matters.

75. The role of the Audit and Risk Committee is to provide advice and constructive challenge to the Chief Executive and to provide support in relation to his responsibilities regarding risk management, control, governance, and associated assurance to support year-end accountability. From our attendance at Audit and Risk Committee meetings, we conclude that there is appropriate scrutiny from members.

Assurances were provided to the Accountable Officer

76. HM Treasury's Financial Reporting Manual (the FReM) requires the inclusion of a governance statement within the annual report and accounts. Guidance is set out within the SPFM (Scottish Public Finance Manual) for the content of the governance statement.

77. The SPFM does not provide a format for the annual governance statement but sets out minimum requirements for central government bodies. The Chief

Executive, as Accountable Officer receives assurance statements from the four directors to support the signing of the governance statement. In addition, internal control checklists are provided by all the principal cost centre managers. The SPFM sets out a model internal control checklist. Forestry and Land Scotland have prepared a tailored checklist that reflects their specific internal control processes and includes a number of low-level processes.

78. The model checklist was updated during 2020/21. This introduced key areas in relation to information asset owners. This new area of risk has not yet been reflected in Forestry and Land Scotland's checklists. We encourage Forestry and Land Scotland to monitor updates to the model internal control checklist to ensure the checklist used as part of its year-end processes is in line with both the SPFM and relevant to internal processes.

Openness and transparency could be further enhanced

79. There is continued focus on how public money is used, and on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant, and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

80. Executive Team, Strategic Board and Audit and Risk Committee minutes are all publicly available on the Forestry and Land Scotland website. As highlighted in previous annual audit reports, openness and transparency could be further improved by extending the availability of meeting papers to the public, with confidential or commercially sensitive information withdrawn or redacted as appropriate.

Corporate and business plans are in place

81. Forestry and Land Scotland's current corporate plan covers the period 2019-22. This was published in October 2019, after the agency was established, in line with the framework document. The plan sets out the organisation's outcomes and targets, performance indicators and gives an overview of how the outcomes will be delivered over the period, in line with the Scottish Government's Purpose and National Outcomes set out in the National Performance Framework.

82. Five corporate outcomes are in place. These are reliant on each other and support the delivery of Forestry and Land Scotland's vision and mission, and ultimately the Scottish Government outcomes. These outcomes are:

- supporting a sustainable rural economy;
- looking after Scotland's national forests and land;
- national forests and land for visitors and communities;
- a supportive, safe and inclusive organisation; and
- a high-performing organisation.

83. The Forestry and Land Scotland business plan for 2021/22 sets out how the organisation will progress the corporate plan objectives and outcomes. It reflects the continued focus on delivering on all commitments, but that an agile approach is vital, in order to be able to respond to challenges as the recovery from the Covid-19 pandemic continues. The 2020/21 business plan is the final annual plan in relation to the current corporate plan. Work is ongoing to prepare and publish the next corporate plan for the agency.

5. Value for money

Using resources effectively and continually improving services

Main judgements

Forestry and Land Scotland has appropriate arrangements in place to achieve and demonstrate best value.

Performance monitoring has continued throughout 2020/21. Forestry and Land Scotland achieved nine out of its 16 key performance indicators. Progress in year has been impacted by the pandemic.

Forestry and Land Scotland has appropriate arrangements in place to demonstrate compliance with the Equality Act 2010 in line with applicable regulations.

Good progress has been made to demonstrate the principles of best value

84. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the Accountable Officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

85. Forestry and Land Scotland's framework document notes that the Accountable Officer should ensure that there is good governance and effective management of resources, with a focus on improvement, in order to deliver the best possible outcomes.

86. Since the establishment of Forestry and Land Scotland on 1 April 2019, work has been undertaken by management to enable the agency to assess the progress and evidence against each of the themes set out in the SPFM's guidance on best value (vision and leadership, effective partnerships, governance, and accountability, use of resources and performance management). Our 2019/20 annual audit report noted that some improvement actions had been identified from this review, including better alignment of the business planning and financial planning processes and better reporting of the annual and corporate performance reports to stakeholders and the public.

87. Further progress has been made during 2020/21, with best value actions included in business plans for 2021/22 and corporate report templates updated to demonstrate how the topic demonstrates delivery of/or commitment to best value.

88. Work continues in this area, and a best value action plan will be developed. This will clearly identify actions to further embed best value across the organisation.

89. Good progress has been made by Forestry and Land Scotland, and management have taken a pro-active approach to assess and demonstrate best value.

Partnership working continued in 2020/21

90. A number of services are delivered by Forestry and Land Scotland on behalf of Scottish Forestry. These include human resources, health, safety and wellbeing, and digital services. A service level agreement was agreed between the two agencies, following the devolution of forestry and is in place until 31 March 2022. This arrangement demonstrates partnership working and a contribution to best value within the public sector. Forestry and Land Scotland are engaging with Scottish Forestry to determine the most cost-effective way of delivering services for both organisations when the current agreement ends.

Appropriate arrangements are in place to support performance management

91. Corporate performance reports are published quarterly and are available on the Forestry and Land Scotland website. These ‘dashboard’ style reports provide an overview of the work of the agency and its progress towards achieving the corporate objectives. The reports cover the four business functions: land management, estate development, business services and corporate services. They include information on performance against outcomes and key performance indicators (KPIs) together with narrative around key issues.

92. The performance report included in the annual report and accounts reports performance against Forestry and Land Scotland’s outcomes and reflects the KPIs published in the corporate plan.

93. Sixteen KPIs were agreed, across the five corporate outcomes. Nine of these were completed during the period. Areas where the target was missed include the volume of timber brought to the market, the area of land awaiting restocking and the area of woodland creation. These targets were not met due to the impact of Covid-19, restrictions on staff capacity, a reduced re-stocking programme during the restrictions, and the focus on producing essential products only during the initial stages of the pandemic.

94. Overall, we have concluded that Forestry and Land Scotland have appropriate arrangements in place to support performance management.

The performance report was of a good standard but could be enhanced further

95. In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of Forestry and Land Scotland’s performance report. The performance report should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced, and understandable analysis of a body’s

performance as well as helping stakeholders understand the financial statements.

96. The performance report reflects the improvements identified in 2019/20 and remains at a good standard. The report shows clear linkages between the five corporate outcomes detailed in the Corporate Plan 2019-2022 and progress against each of the 16 KPIs underpinning these outcomes. The outcomes are aligned to the Scottish Government's outcomes and purpose detailed in the National Performance Framework.

97. In addition to the KPIs referenced in paragraph 93 above, 41 key work areas for 2020/21 are reported in the performance report with 24 of these completed in year. These key work areas sit under the KPIs. As with the KPIs, the impact of the pandemic and subsequently on staff has had an impact on the achievement of these work areas. These activities will continue into 2021/22.

98. Our audit work identified some areas for improvement to the performance report, and these were discussed with management. Revisions were made to the performance report included in the audited accounts, and we are content that it complies with the 2020/21 FReM.

99. Further improvements can be made through providing more detail about future plans for Forestry and Land Scotland. More evaluation and analysis of KPI trends should be included in future years as Forestry and Land Scotland matures as an organisation and completes the three-year cycle of the corporate plan. In addition, the finance reporting provides some information about performance against the operating budget and how this links to future plans. This can be enhanced by providing more linkages to the achievements of the organisation.

Recommendation 5

The performance report should include trend analysis of performance against KPIs, and more on the longer-term sustainability plans for Forestry and Land Scotland. The financial information included should more clearly link to achievements of the organisation.

Appendix 1, Recommendation 5

Forestry and Land Scotland contributes to the Programme for Government

100. The Scottish Government's Programme for Government is published in September every year. This sets out the actions that the Scottish Government will take in the coming year and beyond. As an executive agency of the Scottish Government, Forestry and Land Scotland has a key role to play in contributing to the delivery of the programme. The 2021/22 Business Plan sets out the following commitments of relevance to Forestry and Land Scotland:

- **Nature based investment:** additional funding will be received to expand Scotland's national forests and land, and to increase nursery capacity and higher production. Significant investment in Newton Nursery has been confirmed which will contribute towards the achievement of this commitment.
- **Creating green jobs:** working alongside Scottish Forestry and NatureScot, Forestry and Land Scotland have committed to increasing opportunities for younger people in the rural and green economy. This will include supporting the sector to ensure the growth of forestry skills.

Forestry and Land Scotland has appropriate arrangements in place to help advance equalities

101. Public bodies are required to demonstrate compliance with the Equality Act 2010. As part of our audit work during 2020/21, we considered the arrangements Forestry and Land Scotland has put in place thus far to comply with the Act.

102. Based on our review, we concluded that Forestry and Land Scotland has a good structure in place to help advance equalities within the organisation and in its external activities. The most recent equalities and mainstreaming report was published in April 2021, in line with the requirements of the legislation.

National performance audit reports

103. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to the body. These are outlined in [Appendix 4](#).

104. We provide regular progress reports and updates to the Audit and Risk Committee where we reference national performance reports that may be of interest to members.

Appendix 1: Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Income accruals - renewables</p> <p>Income due at financial year-end in relation to renewable energy schemes is estimated based on an established methodology.</p> <p>Audit testing identified that the actual income received during the year relating to windfarm leases in respect of 2019/20 exceeded the amount that had been estimated by approximately £3.1 million.</p> <p>We identified that based on amounts confirmed to date, accrued renewable income was understated by at least £824,000 at 31 March 2021. This has been reported as an uncorrected misstatement.</p> <p>Risk: There is a risk that the financial statements do not accurately reflect the income receivable from renewable energy schemes.</p>	<p>The estimation methodology for windfarm accruals should be reviewed and revised and updated in advance of the preparation of the 2021/22 financial statements. This review should be extended to other renewable income accruals.</p> <p>Exhibit 2, Point 1</p>	<p>The functional and finance teams are working together to review and recommend a revised approach to the legacy methodology which was inherited.</p> <p>The Management Accounts team has been supplemented with an additional 2.00 wte and the first task of one of the appointees is to review this area of income generation and other commercial (non timber) income.</p> <p>Donna Mortimer & John Mair</p> <p>31 March 2022</p>
<p>2. Income from mineral royalties</p> <p>Audit testing identified income of £428,000 million relating to 2019/20 that had not been recognised in the previous financial year. This income was accounted for in</p>	<p>A review of the arrangements in place for accounting for income streams managed outwith the core finance function is carried out. Arrangements should be in place to ensure that the income reflected in the</p>	<p>See response for Issue 1.</p> <p>Donna Mortimer</p> <p>31 March 2022</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>2020/21 when received by Forestry and Land Scotland.</p> <p>Risk: There is a risk that income is not accounted for in the correct financial year.</p>	<p>financial statements is complete and accurate.</p> <p>Exhibit 2, Point 2</p>	
<p>3. Accounting for non-current assets</p> <p>The accounting treatment of infrastructure and intangible assets should be reviewed. The calculation of the value of felled timber should be reviewed to confirm that it remains accurately based.</p> <p>Accounting policies should be reviewed to ensure they reflect any changes to practice.</p> <p>Risk: There is a risk that the value of non-current assets is not fairly stated.</p>	<p>The accounting practices applied in the accounting for non-current assets should be reviewed to ensure they are appropriate to Forestry and Land Scotland. Particular attention should be given to infrastructure assets, intangible assets, and the value of felled timber.</p> <p>Paragraphs 30-31</p>	<p>As part of the ongoing and business as usual work of the Financial Accounts team FLS will continue to review and ensure that current practices comply with the appropriate standards. While a review of this area has been in the pipeline for completion in previous years, the impact of other areas of review were assessed to be of higher priority at the time.</p> <p>To ensure that we continue to comply this specific area will continue to be monitored with a project to fully review classification policy in the next financial year (2022-23).</p> <p>Donna Mortimer</p> <p>31 December 2022</p>
<p>4. Longer-term financial planning</p> <p>Work continues to develop a sustainable business model, and this will include longer-term financial planning. However, a longer-term financial strategy, has yet to be finalised by Forestry and Land Scotland.</p> <p>Risk: There is a risk that fluctuations in budgeted income and expenditure cannot be effectively managed.</p>	<p>The development of a longer-term financial strategy should be progressed. A financial strategy should be prepared, supported by clear and detailed financial plans, and should clearly align with corporate plan outcomes to support the financial sustainability of the agency.</p> <p>Paragraph 67</p>	<p>Work continues to deliver the Business Sustainability plan which includes the development of a five year budget plan aligned to corporate and business plans. The expectation is that the high level plan will be finalised in late 2021 with the overarching strategy to fulfil the Business Sustainability plan an ongoing exercise while the approach to longer term planning embeds itself in the organisation.</p> <p>Meantime, income and expenditure and any associated fluctuations are monitored monthly and any</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>required mitigating action taken swiftly.</p> <p>Donna Mortimer 31 March 2022</p>
<p>5. Performance report</p> <p>The performance report could be improved by including more trend analysis, more details of future longer term sustainability plans and more clearly linking financial performance disclosures to achievements.</p> <p>Risk: There is a risk that the performance report does not fully communicate the performance of the organisation to stakeholders.</p>	<p>The performance report should include trend analysis of performance against KPIs, and more on the longer-term sustainability plans for Forestry and Land Scotland. The financial information included should more clearly link to achievements of the organisation.</p> <p>Paragraphs 95. -99.</p>	<p>FLS will have completed three full years of operation at the end of 2021-22. This historic data with the finalisation and approval of the five year budget plan gives way to the performance report providing an enhanced picture of the performance and expectations of the organisation in future annual reports.</p> <p>Donna Mortimer & Michael Hymers 31 March 2022</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Valuation of biological assets and the forest estate</p> <p>A review of the processes and methodology for the biological asset and forest estate valuation was undertaken. This identified a valuation methodology reflective of circumstances and assets held.</p> <p>Risk: These valuations are market based and subject to market volatility. There is an inherent risk that these values are misstated.</p>	<p>Management should continue to review the valuation methodology and ensure ongoing dialogue with the professional valuer.</p>	<p>We consider that the arrangements in place to engage with the professional valuer, and the extent of the dialogue between the two parties is reasonable.</p> <p>The move to a full revaluation each financial year end has helped minimise the impact of the valuation movements year on year, however the market performance and significant revaluation increases recognised in recent years means that this is an area that should be subject to ongoing review.</p> <p>Complete for 2020/21</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>2. Accounting for non-current assets</p> <p>Neither infrastructure nor intangible assets are capitalised. Processes in place for accounting for vehicles, machinery and equipment are extensive. The valuation policy for buildings should be reviewed.</p> <p>Risk: There is a risk that the value of non-current assets is not fairly stated.</p>	<p>Accounting policies applied in the accounting for non-current assets (NCA) should be reviewed to ensure they remain appropriate to Forestry and Land Scotland. Particular attention should be given to dwellings and other buildings, infrastructure, vehicles, machinery and equipment and intangible assets where approaches inherited from Forest Enterprise Scotland have yet to be reviewed.</p>	<p>Refer to recommendation 3 above.</p> <p>Ongoing</p>
<p>3. Financial assets</p> <p>The accounting treatment and governance of financial assets are based on legacy arrangements.</p> <p>Risk: There is a risk that the assets are not fairly stated and that the governance arrangements are not effective.</p>	<p>A review of the arrangements in place for the governance and accounting for the investments in Forest Holidays and Camping in the Forest should be carried out. The arrangements, including those relating to the ownership of the investments, should be formalised.</p>	<p>Management's review of the arrangements in place for Forest Holidays and Camping in the Forest was considered as part of our year-end audit work. We recommend that management keep these arrangements under review, however, we have no specific issues to report.</p> <p>Complete</p>
<p>4. Budgetary processes</p> <p>Budget monitoring should ensure that all transactions are recognised appropriately.</p> <p>Risk: There is a risk that budgetary control procedures are not effective.</p>	<p>Management should review the processes in place for budgetary control. Particular attention should be given to the support from the finance team to budget holders across the organisation.</p>	<p>We reviewed Forestry and Land Scotland's budgetary control arrangements, as discussed at Part 2 of this report. No issues were identified with the arrangements in place throughout 2020/21.</p> <p>Complete</p>
<p>5. Longer-term financial planning</p> <p>A longer-term financial plan has yet to be developed for Forestry and Land Scotland. This was deferred pending transition to the new agency.</p> <p>Risk: In the absence of longer-term financial</p>	<p>Forestry and Land Scotland should prepare a longer-term financial strategy, supported by clear and detailed financial plans. This should align with the corporate plan outcomes and will help support the financial sustainability of the organisation.</p>	<p>Refer to recommendation 4 above.</p> <p>Ongoing</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>planning, there is a risk that the impact of budget assumptions on agreed or projected outputs is not effectively recognised.</p>		
<p>6. Impact of Covid-19</p> <p>The uncertainty as a result of the Covid-19 pandemic is unprecedented. It poses an inherent risk to the processes and controls in place at Forestry and Land Scotland.</p> <p>Risk: There is a risk that processes and controls are ineffective.</p>	<p>Forestry and Land Scotland should ensure that processes and controls remain effective. Governance arrangements should continue to inform and support decision making during the period of uncertainty as a result of Covid-19.</p>	<p>Our audit work did not highlight any significant issues as a result of the impact of the pandemic on the processes and controls in place.</p> <p>Complete</p>
<p>7. Performance report</p> <p>The performance report could be improved by more effectively linking the individual sections of the report and providing more information on the achievements during the year linked to the funding provided. Further use of diagrams and infographics could be made.</p> <p>Risk: There is a risk that the performance report does not maximise its potential as a means of communicating performance, and ‘telling the story’ to stakeholders.</p>	<p>The performance report should provide a more rounded picture of achievements during the year linked to funding received and should more effectively link between individual sections of the report. Further use of infographics should be made.</p>	<p>Improvements have been made to the linkages within the report, and the performance report more clearly ‘tells the story’ of Forestry and Land Scotland over the course of 2020/21.</p> <p>Further improvements could be made to enhance the performance report. Refer to recommendation 5 above.</p> <p>Ongoing</p>

Appendix 2: Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of management override of controls</p> <p>ISA (UK) 240 requires that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Testing of journal entries.</p> <p>Review of accounting estimates and judgements.</p> <p>Focussed testing of year-end payables and receivables.</p> <p>Substantive cut-off testing of income and expenditure transactions to ensure accounted for in the correct financial year.</p> <p>Evaluation of significant transactions outwith the normal course of business.</p>	<p>Our audit work did not identify any significant issues that would indicate that management override of controls affected the year-end position.</p> <p>Our interim audit work identified issues with general ledger user access rights, however, we acknowledge that mitigating controls are in place.</p> <p>Conclusion: Satisfactory</p>
<p>2. Risk of fraud over income and expenditure</p> <p>As set out in ISA (UK) 240, there is a presumed risk of fraud in the recognition of income. The financial Reporting Council's Practice Note 10 expands this to require consideration of fraud over expenditure in the public sector.</p> <p>Forestry and Land Scotland generate a significant amount of income from commercial activities, in addition to the</p>	<p>Review of the accounts payable and accounts receivable systems and associated key controls.</p> <p>Testing of income transactions, focussing on areas of greatest risk. This will include focussed testing of contracts for timber income.</p> <p>Testing of expenditure transactions, focussing on areas of greatest risk. This</p>	<p>We substantively tested income and expenditure transactions. We identified issues regarding income accruals, as reported in Exhibit 2. These issues relate to the estimation methodology applied when determining the year-end accrual. No additional issues were identified from our work.</p> <p>We considered the arrangements in place to detect and prevent fraud and</p>

Audit risk	Assurance procedure	Results and conclusions
<p>annual subsidy received from the Scottish Government. In 2019/20, income in excess of £115 million was received from other sources and included £85 million from timber sales.</p> <p>A significant amount of non-standard, non-payroll expenditure is also incurred, given the nature of Forestry and Land Scotland's business. In 2019/20, operating expenditure was £110.5 million. Around 70% of this expenditure was incurred in relation to a range of contracts, including plant and seed supply, timber contractors and hauliers.</p> <p>The nature, extent and complexity of income and expenditure sources means that there is an inherent risk of fraud.</p>	<p>will include testing of third party contractual spend.</p> <p>Substantive cut-off testing of income and expenditure transactions to ensure accounted for in the correct financial year.</p> <p>Review of arrangements in place to detect and prevent fraud.</p>	<p>concluded that these were appropriate.</p> <p>Conclusion: Satisfactory in relation to the risk of fraud over income and expenditure.</p>
<p>3. Accounting estimation and judgement</p> <p>There is a significant degree of subjectivity in the measurement and valuation of material account areas such as land and buildings (2019/20: £372 million), and biological assets and the forest estate (2019/20: £3,048 million).</p> <p>The judgements involved in the valuation of these assets represents an inherent risk of material misstatement in the financial statements.</p>	<p>Review of the work of the professional valuer.</p> <p>Review of the process for applying the information provided by the professional valuer, including indexation where applied, and the subsequent accounting adjustments.</p> <p>Review of the appropriateness of accounting policies and how these are disclosed.</p> <p>Substantive testing of year-end balances.</p>	<p>We reviewed the work of the professional valuer and discussed the valuation exercise with both management and the valuer.</p> <p>The application of valuation information in the preparation of the year-end asset valuations was substantively tested. We did not identify any issues.</p> <p>The accounting policies were reviewed as part of our year-end audit. Some amendments were made in order to better reflect actual practice.</p> <p>Substantive testing of year-end balances was undertaken with no significant issues identified.</p> <p>Conclusion: Satisfactory</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>4. Financial sustainability – longer term financial planning</p> <p>A significant amount of Forestry and Land Scotland's expenditure is funded by income generating activities (2019/20: £115 million). Timber income accounted for the most significant proportion of this in 2019/20 (£85 million / 74%).</p> <p>Whilst timber prices have been rising steadily in previous years, the longer-term impact of the Covid-19 pandemic and EU withdrawal on the volatility of the market and timber prices remains uncertain.</p> <p>The agency does not currently have a longer-term financial strategy. In the absence of robust longer-term financial plans, there is a risk that fluctuations in budgeted income and expenditure or Scottish Government funding cannot be effectively managed.</p>	<p>Review of budgetary control arrangements.</p> <p>Monitor progress made towards developing a longer-term financial strategy.</p> <p>Consideration of the year-end cash reserve balance.</p>	<p>Budgetary control arrangements were reviewed, as discussed at Part 2 of this report.</p> <p>We discussed with management the progress made towards developing a longer-term financial plan. Refer to Part 3 of this report, and Appendix 1, Recommendation 4.</p> <p>Conclusion: Ongoing</p>

Appendix 3: Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £100,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

	Statement of comprehensive net expenditure		Statement of financial position	
	Dr £000	Cr £000	Dr £000	Cr £000
Trade and other receivables – accrued income			824	
Management and development of estate		(824)		
Net impact		(824)	824	

Notes:

This uncorrected misstatement is in relation to the understatement of accrued renewable income at 31 March 2021, as discussed in [Exhibit 2](#).

Appendix 4: Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

Forestry and Land Scotland

2020/21 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



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