

# Forestry and Land Scotland

2021/22 Annual Audit Plan



 AUDIT SCOTLAND

Prepared for Forestry and Land Scotland

March 2022

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Forestry and Land Scotland. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- review of Forestry and Land Scotland's participation in the National Fraud Initiative.

## Impact of Covid-19

2. The Covid-19 pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

4. We aim to add value to Forestry and Land Scotland through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help Forestry and Land Scotland promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend all meetings of the Audit and Risk Committee and actively participate in discussions.

## Respective responsibilities of the auditor and Forestry and Land Scotland

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Forestry and Land Scotland. Key responsibilities are summarised below.

### Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give independent opinions on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within Forestry and Land Scotland to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

### Forestry and Land Scotland responsibilities

8. Forestry and Land Scotland is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, Forestry and Land Scotland has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

### Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**11.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2021/22 audit

**12.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Forestry and Land Scotland are set out in [Exhibit 1](#).

## Exhibit 1

### 2021/22 Quantitative materiality levels for Forestry and Land Scotland

Materiality	Amount
<p><b>Planning materiality</b> – This is the figure we calculate to assess 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, per the 2020/21 audited annual report and accounts.</p>	£40.6 million
<p><b>Performance materiality</b> – 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 planning materiality.</p>	£24.4 million
<p>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 gross income, per the 2020/21 audited annual report and accounts, and will be applied to all account areas other than biological assets, land and the forest estate.</p>	£1.7 million

**Reporting threshold**– We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality, capped at £100,000. £100,000

Source: 2020/21 Forestry and Land Scotland annual report and accounts; Audit Scotland.

## Significant risks of material misstatement to the financial statements

**13.** Our risk assessment draws on our cumulative knowledge of Forestry and Land Scotland, its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

**14.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of management override of controls</b></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>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>• Assess the design and implementation of controls over journal entry processing, test journal entries focussing on areas of significant risk.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of year-end payables and receivables.</li> <li>• Review of accounting estimates and judgements.</li> <li>• Evaluation of significant transactions out with the normal course of business.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>2. Risk of fraud over timber income</b></p> <p>As set out in ISA (UK) 240, there is a presumed risk of fraud in the recognition of income.</p> <p>Forestry and Land Scotland generate a material amount of income from commercial activities, in addition to the annual subsidy limit received from the Scottish Government. During 2020/21 income of approximately of £113 million was received from other sources, with £85 million (75%) of this from timber sales.</p> <p>The nature, extent and complexity of this income means that there is an inherent risk of fraud over the completeness of timber income.</p>	<p>Effective budgetary control arrangements.</p> <p>Well established financial systems and effective internal controls.</p> <p>Appropriate segregation of duties in finance function.</p> <p>Effective counter fraud and whistleblowing procedures in place.</p> <p>Up to date income reconciliations with variances investigated, adjusted and authorised as required.</p>	<ul style="list-style-type: none"> <li>• Review of the accounts receivable and sales recording package systems and associated key controls.</li> <li>• Controls and substantive testing of timber income transactions, including focussed testing of timber contracts.</li> <li>• Substantive cut-off testing of income transactions to ensure accounted for in the correct financial year.</li> <li>• Review of arrangements in place to detect and prevent fraud, including the Timber Security standard operating procedures.</li> </ul>
<p><b>3. Accounting estimation and judgement</b></p> <p>There is a significant degree of subjectivity involved in the measurement and valuation of biological assets, land and the forest estate (2020/21: £4,056 million).</p> <p>The specialised nature and judgements involved in the valuation of these assets, and the application of valuation information when determining the year-end asset values represents an inherent risk of material</p>	<p>Sound arrangements for the provision of valuation information.</p> <p>Use of established professional valuers.</p> <p>Robust assurance framework in place.</p>	<ul style="list-style-type: none"> <li>• Review the work of the professional valuer.</li> <li>• Review the process for applying the information provided by the professional valuer, including indexation where applied, and the subsequent accounting adjustments.</li> <li>• Review of the appropriateness of accounting policies.</li> <li>• Substantive testing of year-end balances.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
misstatement in the financial statements.		

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Source: Audit Scotland

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**15.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for Forestry and Land Scotland due to the nature of expenditure incurred by the agency. The majority of non-pay expenditure streams relate to business as usual spend on goods and services required to support the operation of Forestry and Land Scotland's commercial activities. We do not consider there to be a risk of material misstatement due to fraud over expenditure.

**16.** We have not, therefore, incorporated specific work into our audit plan in this area over and above our standard audit procedures.

### Audit risk assessment process

**17.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.



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# Audit dimensions and Best Value

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## Introduction

18. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

## Audit dimensions

19. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

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### Exhibit 3

#### Audit dimensions



Source: Code of Audit Practice

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20. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual

audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial and performance information.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

## Duty of Best Value

**21.** [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will carry out a high-level review to confirm that such arrangements are in place within Forestry and Land Scotland.

## Audit dimension risks

**22.** We have one audit dimension risk as set out in [Exhibit 4](#). This exhibit details the risk, sources of assurance from management and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 4

#### 2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Financial sustainability – longer-term financial planning</b></p> <p>Forestry and Land Scotland fund a significant amount of expenditure by income generating activities. A significant proportion of this is from timber sales.</p> <p>Whilst timber prices have been rising steadily in previous years, the longer-term impacts of the Covid-19 pandemic and EU exit are uncertain and may lead to market volatility.</p> <p>A longer-term financial plan has not yet been finalised by the agency. There is a</p>	<p>A longer-term financial plan has been progressed. While the market in which Forestry and Land Scotland operates continues to remain volatile this has been developed with known and estimated risks built in for the coming year and year two.</p> <p>Ongoing work on developing business and financial sustainability remains under regular review and is reported to the Executive Team.</p> <p>Effective management of cash reserves in line with the reserves policy.</p> <p>Effective budgetary control arrangements. Robust budget monitoring process in place.</p>	<ul style="list-style-type: none"> <li>• Review of budgetary control arrangements.</li> <li>• Monitor progress made towards developing a longer-term financial strategy, including ongoing discussions with management.</li> <li>• Review of the year-end cash reserve balances.</li> </ul>

Description of risk	Sources of assurance	Planned audit response
risk that fluctuations in budgeted income and expenditure or Scottish Government funding cannot be effectively managed.	<p>Investment in management accounts team to supplement resource available to support, enable and challenge regions and functions more effectively.</p> <p>Ongoing monitoring of market conditions and the impact on timber prices.</p>	

Source: Audit Scotland

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**23.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 5](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**24.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**25.** We will provide an independent auditor's report to Forestry and Land Scotland, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide Forestry and Land Scotland and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**26.** [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report in line with statutory deadlines. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

## Exhibit 5 2021/22 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	28 February 2022	24 March 2022
Management Report	31 May 2022*	5 July 2022
Independent Auditor's Report	21 September 2022*	28 September 2022
Annual Audit Report	21 September 2022*	28 September 2022

\* Please note that dates are indicative and may be subject to change.

Source: Audit Scotland

## Timetable



**27.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

**28.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to bring the reporting of audited accounts back toward pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

**29.** We will continue to work in close partnership with management, with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

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### Exhibit 6 Annual report and accounts timetable

	Key stage		Date
	Latest submission date unaudited annual report and accounts with complete working papers package		31 May 2022
	Latest date for final clearance meeting with the Head of Finance and Procurement		By 14 September 2022*
	Agreement of audited unsigned financial statements Issue of draft annual audit report including ISA 260/ 580 (proposed independent auditor's report and letter of representation) to those charged with governance		21 September 2022*
	Independent auditor's report signed		28 September 2022

\*Please note that dates are indicative and may be subject to change.

Source: Audit Scotland

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### Notional audit fee

**30.** The agreed notional audit fee for the 2021/22 audit of Forestry and Land Scotland is £101,620 (2020/21: £99,590). In determining the audit fee, we have taken account of the risk exposure of Forestry and Land Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited

annual report and accounts, with a complete set of working papers in advance of our financial statements audit commencing. Forestry and Land Scotland anticipate providing a complete package by 31 May 2022.

**31.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

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# Other matters

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## Internal audit

**32.** International Standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**33.** Internal audit is provided by the Scottish Government Directorate for Internal Audit and Assurance. We will place reliance on Audit Scotland's Scottish Government external audit team's review of the internal audit function and will report any significant findings to management on a timely basis.

**34.** From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We do plan to consider the findings of internal audit across a range of work including self-billing, organisational change management, payroll and IT cyber security.

## Independence and objectivity

**35.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**36.** The engagement lead and appointed auditor for Forestry and Land Scotland is Mark Taylor, Audit Director. Auditing and ethical standards require the

appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Forestry and Land Scotland.

## Quality control

**37.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**38.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**39.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.



# Forestry and Land Scotland

## 2021/22 Annual Audit Plan

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](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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