Scottish Land Commission

2020/21 Annual Audit Report

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

September 2021

Contents

Key messages

Audit of 2020/21 annual report and accounts

1 The Commission's financial statements give a true and fair view of the state of its affairs as at 31 March 2021 and of its net expenditure for the year.

2 Expenditure and income were incurred in accordance with applicable enactments and guidance.

3 The performance report, governance statement and audited part of the remuneration and staff report were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers

Financial sustainability

4 The Commission underspent its 2020/21 resource allocation by £26,000 (1.7%).

5 A financial strategy covering the three years to 2023/24 has been prepared. This provides a good assessment of the risks to financial sustainability but requires more detail on how these will be addressed. It should also be updated to reflect the outcome of the recently completed pay and grading review.

6 Governance statement disclosures are appropriate.

Introduction

1. This report summarises the findings from our 2020/21 audit of the Scottish Land Commission ('the Commission').

2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2021 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of the Scottish Land Commission's annual report and accounts
- our consideration of financial sustainability and the appropriateness of the disclosures in the annual governance statement.

3. In common with all organisations, the Commission has had to respond to the global coronavirus pandemic. Staff continued to work from home for the duration of the financial year. This impacted on staff capacity and, as a result, four outputs were postponed until 2021/22. The remainder were fully or partially delivered as at 31 March 2021.

Adding value through the audit

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

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports (Appendix 3) and good practice guides
- providing clear conclusions on the appropriateness of the disclosures in the governance statement and financial sustainability.

5. We aim to help the Commission promote improved standards of governance, better management and decision-making and more effective use of resources.

Responsibilities and reporting

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

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

8. As public sector auditors we give independent opinions on the annual report and accounts. The wider scope of public audit also requires auditors to conclude on the appropriateness of the organisation's arrangements for financial management, financial sustainability, governance and transparency, and value for money unless the auditor judges that it is not appropriate due to the body's size, nature, and audit risks.

9. As in previous years, and as reported in our 2020/21 Annual Audit Plan, we have applied the small body provisions of the Code to the Commission's 2020/21 audit. This is due to the small volume and lack of complexity of the Commission's financial transactions. Further details of the respective responsibilities of management and the auditor can be found in the Code and supplementary guidance.

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

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

Auditor Independence

12. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and the 2020/21 audit fee of £25,410, 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 the Scottish Land Commission and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

14. We would like to thank the Commission's management and staff for their co-operation and assistance during the audit.

Part 1. Audit of 2020/21 annual report and accounts

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

Main judgements

The Commission's financial statements give a true and fair view of the state of its affairs as at 31 March 2021 and of its net expenditure for the year

Expenditure and income were incurred in accordance with applicable enactments and guidance.

The performance report, governance statement and audited part of the remuneration and staff report were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Our audit opinions on the annual report and accounts are unmodified

15. The annual report and accounts for the year ended 31 March 2021 were approved by the Commissioners on 07 September 2021. As reported in the independent auditor's report:

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

The Covid-19 pandemic did not adversely impact our ability to obtain audit evidence

16. The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were not adversely affected by the Covid-19 outbreak. We were able to obtain sufficient, appropriate audit evidence to support our audit opinion.

17. The working papers provided to support the accounts were of a good standard and the audit team received support from finance staff which helped ensure the final accounts audit process ran smoothly.

The annual report and accounts were signed off ahead of our original timetable

18. The unaudited annual report and accounts were received on 01 June 2021 in line with our agreed audit timetable. Commission and Audit Scotland staff worked from home for the duration of the audit, due to ongoing restrictions as a result of the Covid-19 pandemic. Lessons learned from the previous year and use of efficient communication methods such as Microsoft Teams enabled the audit to be delivered two months earlier than the target date set out in our annual audit plan.

Overall materiality is £30,000

19. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and updated on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality	£30,000
Performance materiality	£21,000
Reporting threshold	£2,000

Source: Audit Scotland

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

20. Appendix 2 provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. The appendix also identifies the work we undertook to address these risks and our conclusions from this work.

We have one significant finding to report on the annual audit report and accounts

21. 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. We have one issue to report from our audit of the financial statements. This is summarised in Exhibit 2.

Exhibit 2
Significant findings from the audit of the financial statements

Issue	Resolution
1. Overstatement of trade payables Current liabilities and operating expenditure were overstated by £5,000 due to the inclusion of expenditure which related to the 2021/22 financial year.	The audited accounts have been amended to correct this misstatement.

Source: Audit Scotland

The misstatement was less than our performance materiality threshold and so we did not need to revise our audit approach

22. Audit testing identified only one misstatement of £5,000. As this is below our performance materiality threshold, there was no impact on our audit approach.

23. The audited accounts were amended to correct this misstatement and as a result net expenditure decreased and net assets and the general reserve increased by £5,000. There was no impact on the cash balance.

There are no unadjusted misstatements to report to those charged with governance

24. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted all identified misstatements above our reporting threshold and so there are no unadjusted misstatements to report to those charged with governance.

Good progress was made on prior year recommendations

25. The Commission has made good progress in implementing our prior year audit recommendations, with all but one of these now complete. Details of the actions completed, together with recommendations from our 2020/21 audit, are set out in Appendix 1.

Part 2. Financial sustainability

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

Main judgements

The Commission underspent its 2020/21 resource allocation by £26,000 (1.7%).

A financial strategy covering the three years to 2023/24 has been prepared. This provides a good assessment of the risks to financial sustainability but requires more detail on how these will be addressed. It should also be updated to reflect the outcome of the recently completed pay and grading review.

Governance statement disclosures are appropriate.

The Commission operated within its Departmental Expenditure Limit for 2020/21

26. The main financial objective for the Commission is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. The Commission's financial performance against Departmental Expenditure Limits (DEL) is shown in Exhibit 3.

Exhibit 3
Performance against Departmental Expenditure Limit (DEL) in 2020/21

Performance	Budget £m	Out-turn £m	Over/(under) spend £m
Resource DEL	1.526	1.500	(0.026)

Source: Audit Scotland

27. The Commission reported an outturn of £1.500 million for 2020/21, underspending its overall budget by £26,000 (1.7%) and so met its main financial objective in 2020/21. It also met its internal target to limit any underspend to below 4% of its budget allocation.

28. The majority of the Commission's budget headings underspent during the year due to the impact of the pandemic. These underspends were partially offset by additional costs related to the Commission's work on land rights and responsibilities and to ensure staff had the equipment required for longer term homeworking.

29. The Commission drew down all of its £1.526 million budget allocation during 2020/21, of which £26,000 was unspent at the year-end. The Scottish Government did not require this funding to be returned and it has been added to reserves.

There has been no increase in funding for 2021/22

30. The Commission received the same grant-in-aid funding (£1.526 million) for 2021/22 as it did for 2020/21. Commissioners approved the 2021/22 budget totalling £1.526 million as part of the 2021/22 Business Plan in April 2021.

31. In previous years, the Commission has agreed a budget in excess of its funding allocation as part of its approach to minimising any budget underspend. The Commission chose not to over-programme its budget for 2021/22, with budget holders instead maintaining a list of work that can be brought forward if slippage is identified in other areas.

32. The latest monitoring report notes that £0.262 million (17%) of the 2021/22 budget was uncommitted as at 27 July 2021. This compares to 11.5% as at 30 June 2020. We will continue to monitor progress against the 2021/22 budget as part of our 2021/22 audit.

The Commission has developed a medium-term financial plan

33. In previous years we have recommended that the Commission should develop a long-term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +). Plans should set out scenario plans (best, worst, most likely) with a clear assessment of the impact of budget assumptions on activity and any residual risks.

34. In response, a financial strategy covering the three years to 2023/24 was presented to the Audit and Risk Committee in November 2020. The strategy identifies a number of key issues including:

- all funding is via grant-in-aid with no other source of income
- government finances are expected to remain highly constrained for the coming 3-5 years with likely pressure to reduce budget allocations
- staffing, Commissioner, and fixed costs account for 69% of the annual budget leaving only 31% for completion of the outputs set out in the annual programme of works.

35. The strategy recognises that the amount available for research projects will come under increasing pressure as payroll and fixed costs increase year on year. In addition, four different scenarios are considered for grant-in-aid: maintaining the current level, and reductions of 5%, 10% and 20% together with the impact of these on project delivery and staff numbers.

36. In our opinion, the strategy is a good assessment of the risks to financial sustainability faced by the Commission but requires more detail on how these will be addressed.

37. The 2021/22 budget papers further developed the financial strategy including setting a target of maintaining a ratio of approximately 70/30 fixed/flexible costs to provide sufficient flexibility to respond to future years' budget settlements. Fixed costs in the 2021/22 budget currently exceed this at 72%. In response, the Commission aims to make efficiency savings by reducing the costs of external communications support and reducing office accommodation costs.

38. The financial strategy has not yet been updated to reflect the impact of the recently completed pay and grading review.

Recommendation 1

The financial strategy should be updated to reflect the impact of the recently completed pay and grading review, and to provide more detail on how the risks to financial sustainability identified will be addressed.

Governance statement disclosures are appropriate

39. Our review of the Governance Statement within the annual report and accounts assessed the assurances which are provided to the Accountable Officer regarding the adequacy and effectiveness of the Commission's system of internal control which operated in the financial year. As in previous years, the Accountable Officer has placed reliance on the assurances provided by Heads of Service, the Audit and Risk Committee, and shared service providers.

40. Reliance is also placed on internal audit findings reported during the year, and internal audit's overall opinion that *'based on our verification reviews and sample testing, the risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related risk management, control and governance objectives were achieved for the period under review.'*

41. The Governance Statement sets out the main areas of focus for the Commission in 2021/22. These include contributing to Scotland's economic recovery and renewal, undertaking an organisational development review, and delivering the programme of work which supports its Strategic Plan.

42. We concluded that the information in the Governance Statement is consistent with the financial statements and complies with the guidance issued by Scottish Ministers.

National performance audit reports

43. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Although there were no reports published in 2020/21 which were of direct interest to the Commission, there were others with some wider relevance. These are set out in Appendix 3.

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. **Financial strategy improvement** The Commission's financial strategy is a good assessment of the risks to financial sustainability faced by the Commission but requires more detail on how these will be addressed. It also does not reflect the impact of the recently concluded pay and grading review. Risk – there is a risk that the Commission do not respond quickly to changes in funding levels.	The financial strategy should be updated to reflect the impact of the recently completed pay and grading review, and to provide more detail on how the risks to financial sustainability identified will be addressed. Paragraphs 33 to 38	Financial strategy to be updated to reflect changes in staffing costs and addressing risks. **Responsible officer:** Chief Executive **Agreed date:** 31 December 2021

Progress against prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
2. Year-end processes Two key working papers were not provided in the working papers package provided to audit. It is not clear if the bank reconciliation had been completed prior to submission of the unaudited annual report and accounts for audit. Risk – there is a risk that the accounts are misstated if key	Year-end processes should be reviewed to ensure that key tasks are completed before the annual report and accounts (and supporting working papers) are submitted for audit.	**Complete** The Commission's year-end processes have been reviewed and Finance desk instructions updated. A complete set of working papers was provided to audit to accompany the draft annual report and accounts.

Issue/risk	Recommendation	Agreed management action/timing
year-end tasks are not completed timeously.		
3. Fixed asset register Our audit found discrepancies between the value of Property, Plant and Equipment (PPE) disclosed in the accounts, the fixed asset register, and the general ledger. These discrepancies arose due to a lack of clarity over the Commission's capitalisation policy. Risk – there is a risk that the accounts are misstated due to differences between the accounts and the underlying accounting records.	A reconciliation should be performed between the FAR and the ledger at the year-end to ensure the accounting records agree to the FAR. The Commission should amend its accounting policy to clarify when assets fall within a group, and when they should and should not be capitalised.	**Complete** The accounting policy has been amended to clarify when assets should and should not be capitalised. No differences were noted between the fixed asset register and the ledger.
4. Performance report There is scope to further improve the performance report in future years. Annex 5 to the FReM gives additional guidance for narrative reporting. Risk – there is a risk that the Commission fails to communicate effectively with its stakeholders.	The Commission should review the content and presentation of its performance report against Annex 5 of the FReM and Audit Scotland's good practice guide.	**Complete** The Performance Report included in the 2020/21 annual report and accounts was compliant with requirements of the FReM.
5. Performance report The Commission prepares a 'glossy' version of the annual report and accounts once the audit is substantially complete. The performance report included in the document submitted for audit includes text in places where graphics will be inserted in the final version which impacts on the readability and understandability of the performance report. Risk – the audit process is less efficient resulting in	A more final version of the performance report should be included in the annual report and accounts submitted for audit.	**Complete** The 2020/21 annual report and accounts submitted for audit was well-formatted and a much more final version than in previous years. This aided the audit process and resulted in fewer audit findings.

Issue/risk	Recommendation	Agreed management action/timing
additional fees and delays to the completion of the audit process.		
6. Internal control processes The Commission adopted a paperless approach to record keeping with effect from 1 April 2019 and, as a result, the completion of some internal control processes is no longer evidenced. Risk – the scale and pace of change as a result of Covid-19 poses an increased risk that financial controls will not operate as intended.	We recommend the Commission implements an electronic record-keeping system to document the requirement for, and completion of, control procedures on a timely basis throughout the year and at year end. It should ensure controls remain effective during the period of uncertainty caused by the Covid-19 pandemic.	**Complete** Our audit work did not identify any areas of control weakness due to Covid-19. Where required, electronic record-keeping such as monthly bank reconciliations was in place.
7. Financial planning The Commission's budgets are prepared and approved on an annual basis. Scenario planning is not used to model the impact of different funding levels. Risk – without medium to longer term financial planning (including scenario planning), there is a risk that the Commission is not fully prepared for potential changes in its funding levels and that opportunities and risks may not be fully realised/mitigated.	A long-term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) should be developed. Plans should set out scenario plans (best, worst, most likely) with a clear assessment of the impact of budget assumptions on activity and any residual risks.	**Partially complete** The Commission has prepared a medium-term financial strategy covering the three years to 2023/24. This needs to be updated to reflect the impact of the recently concluded pay and grading review. More detail on how the risks identified will be addressed should also be included. Refer to paras 33 to 38. Recommendation 1
8. Performance management The Commission continues to develop its performance management system. Work is ongoing to develop a set of key performance indicators (KPIs) to support monitoring of progress made in delivering the outcomes set out in the strategic plan	The Commission should continue to develop its performance management framework including development of a range of key performance indicators against which to monitor its performance.	**Complete** In previous years we have reported updates against this recommendation. Last year we concluded that the KPIs, agreed by the Board in December 2019, were fairly generic and could be better tailored to the objectives included in the Commission's strategic plan.

Issue/risk	Recommendation	Agreed management action/timing
(2018-2021) and the annual business plan. Risk – in the absence of a well-developed performance management framework, there is a risk that the delivery of the Commission's activities and strategic plan is not adequately monitored and reported.		The new Strategic Plan 2020-23 includes a revised set of KPIs which are linked to the plan's objectives. In our opinion, these provide an appropriate framework for measuring the Commission's performance.

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion.

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
1. **Risk of material misstatement due to fraud caused by the management override of controls** International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.	Detailed testing of journal entries and other period end adjustments. Review of accounting estimates for bias. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.	**Results:** Our audit work did not identify any issues that would indicate management override of controls affecting the out-turn or year-end position. **Conclusion:** Satisfactory
2. **Estimations and judgements** There is a significant degree of subjectivity in the measurement and valuation of the work-in-progress of research projects at the financial year-end. This subjectivity represents an increased risk of misstatement in the financial statements.	Substantive testing of contracts in progress at year end. Review of project status reports and reasonableness of estimates and assumptions used when determining stages of completion.	**Results:** Our audit work identified only one project in progress at year-end. Due to the status of the project, no estimation of the amount of work-in-progress was required. The values involved were not material to the financial statements. No significant estimations or judgements were made. **Conclusion:** Satisfactory

Audit risk	Assurance procedure	Results and conclusions
3. Changes to FReM requirements for narrative reporting Last year we noted that there was scope to improve the performance report. This year's FReM includes a new chapter (Chapter 3) on lessons learned from the Government Financial Reporting Review, examples of good practice and guidance on improving narrative reporting. Chapters 5 (performance report) and 6 (accountability report) have also been revised. There is a risk that the 2020/21 annual report and accounts do not reflect the revised FReM requirements.	Review of the performance and accountability reports against requirements set out in the 2020/21 FReM. Review of completed disclosure checklist and investigation of any areas of non-compliance.	**Results:** Our review of the performance and accountability reports noted one non-compliance with the 202/21 FReM. The audited accounts have been updated to include the required disclosure on staff turnover. Our review of the completed disclosure checklist did not identify any other areas of non-compliance. **Conclusion:** Satisfactory

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

Audit risk	Assurance procedure	Results and conclusions
4. Financial sustainability The Commission's budgets are prepared and approved on an annual basis. Without medium to longer term financial planning (including scenario planning) there is a risk that the Commission is not fully prepared for potential changes in its funding levels and that opportunities and risks may not be fully realised/mitigated.	Review of the long-term financial strategy. Review of 2021/22 budget papers.	**Results:** A medium-term financial strategy covering the three years to 2023/24 has been prepared. This needs to be updated to reflect the impact of the recent pay and grading review. More detail on how the risks identified will be addressed should also be included. The Commission's 2021/22 budget allocation is the same as for 2020/21, and fixed costs now account for 72% of the Commission's budget. **Conclusion:** Unsatisfactory Recommendation 1

Appendix 3. 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

Scottish Land Commission

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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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