

Scottish Forestry

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Scottish Forestry and the Auditor General for Scotland

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Key messages

2020/21 annual report and accounts

- 1 Our audit opinions on the annual report and accounts are unmodified.
- 2 The financial statements of Scottish Forestry give a true and fair view of the financial position as at 31 March 2021 and of its net operating expenditure.
- 3 The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 4 The annual report and accounts have been properly prepared in accordance with the financial reporting framework.

Financial management and sustainability

- 5 An underspend of £12.7 million was recorded in 2020/21. This was a result of a revised estimate of the year-end grant accrual identified late in the financial year and planting targets not being achieved.
- 6 Systems of internal control operated as expected, and processes and controls were adapted to reflect new ways of working.
- 7 An operating budget of £83.6 million has been agreed for 2021/22.
- 8 A longer-term financial strategy supported by detailed financial plans has not yet been developed by Scottish Forestry.

Governance, transparency, and value for money

- 9 Appropriate governance arrangements are in place and continue to develop. Governance arrangements and controls operating throughout the Covid-19 pandemic were appropriate.
- 10 The 2020/21 Business Plan was delayed and published in June 2020 due to Covid-19 pressures. The 2021/22 Business Plan is still to be finalised.
- 11 Scottish Forestry achieved 19 out of its 39 performance activities for 2020/21.
- 12 Performance reporting could be further improved by the development of measurable key performance indicators.

Introduction

1. This report summarises the findings from our 2020/21 audit of Scottish Forestry.
2. The scope of our audit was set out in our annual audit plan presented to the Audit and Assurance Committee in March 2021. This report comprises the findings from:
 - an audit of Scottish Forestry's 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 Scottish Forestry's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - a review of the body's key financial systems
 - consideration of the four audit dimensions.
4. The global coronavirus pandemic has continued to impact the work of Scottish Forestry. Staff have predominately been working from home in 2020/21 and at the start of the financial year there were delays in planting inspections. Outdoor inspections which included site visits and surveys of plant health began again in June 2020. There were no specific risks related to the pandemic in our annual audit plan. We reviewed our assessment of the key risks in advance of the year-end financial statement audit, and considered that our risk assessment remained relevant, and there were no new or emerging risks that affect our audit.

Adding value through the audit

5. We add value to Scottish Forestry 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 and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

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

Responsibilities and reporting

7. Scottish Forestry 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.

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

9. 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. 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.

10. 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.

11. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

12. 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.

13. 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, therefore, the 2020/21 audit fee of £51,280 as set out in our annual audit plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

15. 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

Our audit opinions on the annual report and accounts are unmodified.

The financial statements of Scottish Forestry give a true and fair view of the financial position as at 31 March 2021 and of its net operating expenditure.

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

The annual report and accounts have been properly prepared in accordance with the financial reporting framework.

Our audit opinions on the annual report and accounts are unmodified

16. The Audit and Assurance Committee agreed on 2 September 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 3 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 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

17. As a result of the continuing impact of Covid-19, the Scottish Government extended the deadline for submission of central government audited annual reports and accounts from 30 June 2021 to 31 August 2021.

18. The unaudited annual report and accounts were received in line with our agreed audit timetable on 15 June 2021. All work was carried out remotely and engagement with key finance staff allowed access to the required records and systems.

19. The working papers provided with the unaudited financial statements were generally of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly. Our audit identified a number of presentational and disclosure issues in the unaudited financial statements. These were discussed with finance staff and subsequently amended in the audited financial statements.

Overall materiality was £887,000

20. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised downwards on receipt of the unaudited annual report and accounts; this is a consequence of gross expenditure being lower than budgeted. This is summarised in [Exhibit 1](#).

Exhibit 1

Quantitative materiality values

Materiality level	Amount
Overall materiality - This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2021.	£887,000
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 professional judgement, we have calculated performance materiality at 75% of overall materiality.	£665,000
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 5% of overall materiality.	£44,000

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

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

21. A description of those 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 influenced 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 summarises the work we undertook to address these risks and our conclusions from this work.

22. We have reported findings based on our work on the risks of material misstatement highlighted in our 2020/21 annual audit plan, issued in March 2021. These relate to:

- management override of controls;
- grant expenditure; and
- accrued EU income.

Significant findings from the annual report and accounts

23. 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 Scottish Forestry's accounting practices. The significant findings from our audit are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Grant accruals</p> <p>Our 2019/20 annual audit report highlighted that the Casebook grants system did not have the functionality to individually list all grants accrued at year-end.</p> <p>Improvements to the functionality were made to Casebook's reporting in late 2020/21. A detailed listing of grants is now available, and this has resulted in improvements to the estimation of the year-end grant accrual.</p> <p>The £34.0 million accrual reflects the value of grant claims that had been made by 31 March 2021 but had not yet been paid (2019/20 £48.6 million).</p> <p>The relatively high value of the accrual reflects that the planting season is in spring and therefore most claims are made in March, just before the financial year-ends. Claims are then subject to checks and inspections which are undertaken after year-end. Payments are made following the completion of this process.</p>	<p>Management is now able to individually identify and accrue grant claims made by 31 March 2021, resulting in a more accurate accrual.</p> <p>We have assessed the improvements to the methodology for estimating the grant accrual and have judged these to be appropriate.</p> <p>We tested a sample of accrued grant claims and confirmed that these were paid after the financial year-end. We tested a sample of 2020/21 grant commitments that had not been claimed before 31 March 2021 and confirmed that these were correctly excluded from the year-end accrual.</p> <p>We note that further improvements in Casebook functionality are still required to fully meet Scottish Forestry's reporting needs.</p> <p>Recommendation 1 – Appendix 1</p>
<p>2. Management of budget and outturn</p> <p>Scottish Forestry underspent its budget by £12.7 million in 2020/21. This was primarily due to:</p>	<p>The excess draw down and underspend against budget was largely due to the improved estimation of the year-end grant</p>

Issue	Resolution
<ul style="list-style-type: none"> programme costs being £23.6 million less than budgeted. This was due to the year-end grant accrual being significantly lower than anticipated (see point 1) and the planting target not being achieved; and EU income being £12.9 million less than budgeted. This partly offset the reduction in programme costs. Grant schemes are co-funded by EU funding and the reduction in anticipated programme costs has had a corresponding reduction in EU income. <p>Scottish Forestry draws down cash from the Scottish Government based on budgeted levels of expenditure. The reduced estimate of the grant accrual was not identified until late in the financial year. At this point, Scottish Forestry had already drawn down all cash available. The 2020/21 financial statements record this excess draw down of cash as a creditor with the Scottish Government (£12.1 million).</p>	<p>accrual. Budgeting for 2021/22 will be based on the revised estimation technique.</p> <p>The £12.1 million creditor has been accounted for in accordance with the 2020/21 Government Financial Reporting Manual and has been agreed with the Scottish Government. Scottish Forestry will utilise this funding in 2021/22.</p> <p>Scottish Forestry should closely monitor projected spend and ensure that only cash required is drawn down from the Scottish Government.</p> <p>Recommendation 2 – Appendix 1</p>
<p>3. EU income - grants</p> <p>The financial statements record accrued income of £12.8 million relating to EU funding.</p> <p>The accrual reflects the EU funded element of committed grant funding under the Scottish Rural Development Programme. All forestry grant payments are made by the Scottish Government's Rural Payments and Inspections Division (RPID). RPID is the accredited paying agency in Scotland for all European Commission Common Agricultural (CAP) grants.</p> <p>Scottish Forestry expect this to be fully repaid and there are currently no identified potential EU disallowances arising from recent EU audits.</p>	<p>We have tested a sample of 2020/21 grant claims and confirmed that these were processed correctly. This provides assurance over the funding due.</p> <p>We considered internal audit's 'EU Grants – Forestry Grant Scheme' report. This forms part of the assurance work which Scottish Government RPID provides to the European Commission (EC) for European Fund for Agricultural Development. Reasonable assurance was provided, based on the work carried out.</p> <p>We have sought and received the Accountable Officer's assurances that the accrual of EU income is fairly stated in the ISA 580 letter of representation.</p>

Source: Audit Scotland

One misstatement in excess of our reporting threshold was identified

- 24.** Total misstatements in excess of our reporting threshold were £50,000. This related to a grant claim which had not been included in the year-end

accrual. This claim was included in the year-end Casebook report; however, the value of the payment was not included. As a result, it was not included in the year-end accrual.

25. Scottish Forestry carried out a review of all claims that required to be accrued at year-end and we have reviewed the work undertaken by management. In addition, we carried out targeted work on grant payments and the year-end grant accrual, including an assessment of the completeness of the accrual. We have concluded that this arose from an isolated issue and it has been identified in its entirety and does not indicate further systemic error.

26. 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 for all misstatements identified, including those below our reporting threshold.

27. The cumulative impact of the adjustments made in the audited accounts is an increase in net expenditure in the Statement of Comprehensive Net Expenditure of £165,000. Net assets in the Statement of Financial Position remained unchanged as a result of adjustments made.

Other matters arising from the audit of the accounts

28. Financial commitments: Note 15 in the annual report and accounts records Scottish Forestry's financial commitments to the payment of future instalments under a range of EU programmes for woodland creation and replanting. These commitments total £94.1 million and include:

- Scottish Rural Development Plan 2007–2013: £14.2 million
- Scottish Rural Development Plan 2014–2020: £79.9 million.

29. Cash and cash equivalents: The Statement of Financial Position records a year-end cash balance of £31.9 million. This cash balance reflects funding drawn down in respect of the locally funded element of the Forestry Grant Scheme, which had not yet been paid out to grant claimants. The cash balance has increased from 31 March 2020 as a result of the increased activity in this area and the excess drawdown of Scottish Government funding in 2020/21 as discussed at in [Exhibit 2 Point 2](#). Amounts payable to grant recipients have been appropriately recognised as expenditure.

Some progress has been made on prior year recommendations

30. Scottish Forestry 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

An underspend of £12.7 million was recorded in 2020/21. This was a result of a revised estimate of the year-end grant accrual identified late in the financial year and planting targets not being achieved.

Systems of internal control operated as expected, and processes and controls were adapted to reflect new ways of working.

Scottish Forestry operated within its budget in 2020/21, recording an underspend of £12.7 million

31. The main financial objective for Scottish Forestry is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

32. Scottish Forestry reported an outturn of £44.2 million against its overall budget for 2020/21 with an underspend of £12.7 million. The financial performance against the overall fiscal resource budget is shown in [Exhibit 3](#).

Exhibit 3

Performance against budget in 2020/21

	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Fiscal resource	47.477	56.857	44.182	(12.675)

Source: Scottish Forestry Annual Report and Accounts 2020/21

33. Scottish Forestry's budget was increased as part of the autumn and spring budget revisions. Additional funding from the Scottish Government totalled £9.4 million, mainly to support timber transport programmes and funding for the cross-border provision of forestry services and research.

34. The £12.7 million underspend was largely attributed to:

- improved functionality of the Casebook grant system, leading to improved estimation of the year-end grant accrual which resulted in the year-end accrual being significantly less than budgeted;
- EU income being lower than budgeted, which partly offset the reduction in year-end accrual; and
- the 2020/21 planting season being impacted by poor weather, Covid-19 restrictions, and EU exit, meaning planting targets were not achieved and a number of contracts were varied into 2021/22.

35. The original budget included £3.0 million in Financial Transactions funding. This funding was provided to launch the Small Woodlands Loan Scheme, providing loans to support woodland creation that meets specific criteria. The launch of this scheme was delayed due to Covid-19, and Scottish Forestry returned all Financial Transactions funding to the Scottish Government as part of the spring budget revision. The scheme launched in March 2021, and Scottish Forestry received £1.0 million in Financial Transactions funding as part of its 2021/22 budget allocation.

36. As noted previously, Scottish Forestry's projected outturn position changed late in the financial year, due to improvements in the estimation of the year-end grant accrual. As discussed in [Exhibit 2, Point 2](#) and [Appendix 1, Recommendation 2](#), Scottish Forestry should closely monitor projected spend and ensure that only cash required is drawn down from the Scottish Government

37. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and non-executive advisors receive regular, timely and up to date financial information on the financial position.

Scottish Forestry records net liabilities in the statement of financial position

38. The Statement of Financial Position summarises what is owned and owed by Scottish Forestry. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit.

39. The financial statements show that Scottish Forestry had net liabilities of £3.1 million. This position is largely as a result of the low baseline value of property, plant, and equipment. This is not considered an issue in relation to the going concern of the organisation, as all funding is received from the Scottish Government on an ongoing basis.

Financial systems of internal control operated as expected

40. Forestry and Land Scotland provide a number of key financial systems to Scottish Forestry, under a service level agreement. These include the general ledger (including accounts payable and receivable) and payroll. We obtained assurance from Forestry and Land Scotland's external auditors that the key controls within the core financial systems were operating as expected.

41. In addition, we reviewed the key financial controls operated by the Scottish Forestry finance team. This work included a review of the controls in place over grant expenditure and banking. We concluded that the 'local' controls were appropriate and operated as expected.

We considered the work of internal audit

42. Scottish Forestry's internal audit function is carried out by the Scottish Government's Directorate for Internal Audit and Assurance. The Public Sector Internal Audit Standards (PSIAS) require the "chief audit executive" to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2020/21 is that of reasonable assurance, which is defined as "controls are adequate but require improvement."

43. We reviewed Scottish Forestry's internal audit arrangements 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 assessed that we were able to place reliance on the work of internal audit and have considered its 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

44. Scottish Forestry is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. Furthermore, the senior executive team is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

45. We reviewed the arrangements in place to maintain standards of conduct, including 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.

46. The National Fraud Initiative 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.

47. Scottish Forestry has progressed its review of the most recent 'matches' data. No instances of fraud or irregularity have been identified from the review carried out to date.

48. 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.

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

An operating budget of £83.6 million has been agreed for 2021/22.

A longer-term financial strategy supported by detailed financial plans has not yet been developed by Scottish Forestry.

A balanced budget has been set for 2021/22

49. The Scottish Government's 2021/22 budget was published in January 2021. Scottish Forestry's core budget for 2021/22 is £83.7 million, an increase of 76.2% from 2020/21. This increase is largely due to the absence of EU co-funding in 2021/22 (2020/21: £26.9m). In real terms, the 2021/22 budget is an increase of £9.3 million, 12.5%, compared to 2020/21.

50. This increase in funding also reflects the Scottish Government's target of moving towards 'net zero' carbon emissions. Scottish Forestry contributes towards this target through supporting woodland creation and meeting the planting targets set by the Scottish Government. The planting target for 2021/22 has increased by 12.5%, to 13,500 hectares.

51. Scottish Forestry have agreed an operating budget of £83.6 million for 2021/22, estimating a small underspend against Scottish Government funding allocation. The most significant element of budgeted spend is on woodland grants and includes allocation for capital grants for woodland creation and funding for the Small Woodlands Loan Scheme, as discussed at paragraph [35.](#) above. The budget also includes a £0.2 million contingency for any unforeseen or unexpected expenditure.

Longer-term financial and workforce planning should be progressed

52. As reported in our 2019/20 annual audit report, a longer-term financial plan has yet to be developed for Scottish Forestry. The Scottish Forestry Corporate Plan 2020-23 and annual business plan contains limited financial information.

53. The Scottish Government plans to maximise the contribution of forestry and woodland to Scotland's economy by continuing to stimulate and enable woodland creation across Scotland. This has resulted in increasing planting targets and resource pressures for Scottish Forestry, as progress is made towards a planting target of 18,000 hectares per year by 2024/25.

54. Scottish Forestry has an understanding of the financial requirements to support these increasing planting targets. Work is also being undertaken to consider the staffing requirements which are needed to support these targets.

55. Scottish Forestry should progress work to develop a medium to longer-term financial strategy, which is supported by clear and detailed financial plans, reflecting the resource requirements for meeting increasing planting targets. This should include scenario planning to consider different levels of future funding from the Scottish Government as this may be lower than expected due to the financial challenges facing the public sector.

56. This would allow Scottish Forestry to better understand its financial position and the associated impact on its ability to achieve its strategic objectives. Workforce planning should be developed alongside the financial plan, as it is important that Scottish Forestry have adequate resources (both staffing and financial) in place to deliver on its commitments.

Recommendation 3

A longer-term financial strategy should be developed, supported by clear and detailed longer-term financial plans. Scenario planning considering different levels of funding should be incorporated into this work. Workforce planning should be progressed alongside this, to ensure Scottish Forestry have adequate resources in place to deliver on its commitments.

Appendix 1, Recommendation 3

4. Governance and transparency

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

Main judgements

Appropriate governance arrangements are in place and continue to develop. Governance arrangements and controls operating throughout the Covid-19 pandemic were appropriate.

The 2020/21 Business Plan was delayed and published in June 2020 due to Covid-19 pressures. The 2021/22 Business Plan is still to be finalised.

Appropriate governance arrangements have been developed by Scottish Forestry

57. Scottish Forestry's governance arrangements are set out in its Framework Document which was finalised in April 2019. Scottish Forestry is led by a Senior Executive Team, with the Chief Executive assisted by five function heads. The Chief Executive is the Accountable Officer for the agency meaning that he has a personal responsibility for maintaining a sound system of risk management and internal control.

58. The Forestry and Land Management (Scotland) Act 2018 states "The Scottish Ministers must appoint an officer to be known as the chief forester." This chief forester is responsible for the development, communication, and promotion of professional standards among forestry staff in Scottish Forestry and Forestry and Land Scotland. We are pleased to note that a new chief forester was appointed and assumed duties from July 2020.

59. Scottish Forestry has governance arrangements in place to support the Chief Executive in the delivery of his responsibilities. These include a Strategic Advisory Group and an Audit and Assurance Committee.

60. The Strategic Advisory Group is comprised of the function heads and three non-executive advisors. Its role is to support and advise the Chief Executive on matters such as strategy, corporate and financial plans, scrutinising performance and ensuring high standards of corporate governance. The Senior Executive Team supports the Chief Executive with the day-to-day management and direction of Scottish Forestry. The Audit and Assurance Committee's role is to provide advice and constructive challenge to the Chief Executive, and to provide support in relation to his responsibilities such as strategic processes for governance and risk management, internal control environment, and year-end accountability. We attend all Audit and Assurance

Committee meetings and can conclude that there is appropriate scrutiny from members.

61. We concluded that, overall, Scottish Forestry has appropriate governance arrangements in place to support good governance, accountability, and scrutiny. We shall continue to review these arrangements over the period of our audit appointment, and as Scottish Forestry matures as an organisation.

The governance arrangements and controls operating throughout the Covid-19 pandemic were appropriate

62. The impact of Covid-19 on Scottish Forestry has been detailed in the governance statement included in the annual report and accounts. We reported in last year's annual report on the revised governance arrangements introduced by Scottish Forestry to respond to the pandemic. These included:

- the establishment of a Covid-19 Resilience Group which reported to the Senior Executive Team
- the move to remote working for the majority of Scottish Forestry staff, and the required revisions to processes and controls, including the development of electronic processing and authorisation.

63. Scottish Forestry has made good use of technology to help support the schedule of governance meetings to allow these to continue during the pandemic.

64. The Covid-19 Resilience Group continued to monitor emerging issues and is now looking at ways in which staff members could return to offices both safely and securely. During 2020/21 some individuals, including woodland officers and tree health staff were able to return to work with new safety protocols in place to support them.

65. Overall, Scottish Forestry has been proactive in dealing with the changing operating environment. The scale and pace of change as a result of Covid-19 posed a risk to the key financial controls within the finance department. As Scottish Forestry move towards more hybrid working arrangements, management will need to ensure that the processes and controls in place are effective for this type of working arrangement and that there is sufficient, well-documented governance to inform and support all decisions.

The corporate plan was supported in 2020/21 by an annual business plan

66. The Scottish Forestry Corporate Plan 2020-2023 was published in June 2020. The plan sets out Scottish Forestry's corporate objectives and its priorities to ensure these are achieved.

67. The corporate plan is supported by an annual business plan. The 2020/21 Business Plan is a combined Business Plan and Recovery Plan and includes actions Scottish Forestry planned to take to restart its business following the Covid-19 shut down and was published in June 2020. The 2020/21 Business Plan details three strategic objectives which are supported by nine high level

priorities. These priorities are in turn supported by 39 activities which have been identified to deliver Scottish Forestry plans.

68. The 2021/22 Business Plan is not yet available. Scottish Forestry has confirmed that this is in draft form and is still to be finalised. Scottish Forestry identified that the delay stems from the planning work required for the plan, coupled with staffing pressures. We would encourage Scottish Forestry to develop and finalise business plans in advance of the commencement of the financial year to which the plan relates.

69. In 2019, the Scottish Government published its Scotland's Forestry Strategy 2019-2029 which sets out a 50-year vision for forestry in Scotland. Scottish Forestry is leading the co-ordination of the delivery, monitoring and reporting of the strategy, including the development of the Forestry Strategy Implementation Plan. Scottish Forestry published its Forestry Strategy Implementation Plan 2020-2022 which provides a baseline for the initial delivery of the Forestry Strategy and this was published before the pandemic started. Actions which were being prioritised were detailed in the Covid-19 Forestry Sector Restart and Resilience Plan.

70. Scottish Forestry recognises the need for these plans to be kept under review to support the forestry sector recovery from the impacts of the coronavirus pandemic.

Assurances are provided to the Accountable Officer

71. 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 Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives.

72. The SPFM provides guidance on the content and format of the certificates of assurance that are provided to the Accountable Officer to support the signing of the governance statement. It sets out a model internal control checklist. Scottish Forestry uses tailored checklists to address specific internal control processes and we reported in our 2019/20 annual audit report that the checklists used by Scottish Forestry could be more closely aligned to the SPFM example. We are pleased to note that the internal control checklists used in 2020/21 have been updated to better reflect the level of detail and coverage of the SPFM example.

Openness and transparency could be further enhanced

73. 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.

74. We note that some papers and minutes of meetings are available on Scottish Forestry's website. Management should consider the openness and transparency of the organisation against best practice and the Scottish Government's values of Open Government which aim to foster openness,

transparency, and citizen participation. All meetings are held in private, but openness and transparency could be improved by extending the availability of meeting agendas and papers to the public, with confidential information withdrawn or redacted as appropriate.

Risk management arrangements continue to develop

75. The approach to risk management was reviewed following Scottish Forestry's establishment and the transition from Forestry Commission Scotland. The risk register was re-designed, and the risk appetite was agreed. The risk register is considered by the Senior Executive Team at least quarterly, and strategic level risks are discussed at each meeting of the Audit and Assurance Committee.

76. The risk management update discussed at the Audit and Assurance Committee March 2021 meeting noted that an exercise is ongoing to obtain an overview of risk management across the organisation and to identify what is working well, and where improvements can be made in the processes. The governance statement within the annual report and accounts recognises the work of the Strategic Advisory Group and Senior Executive Team that continues to ensure risk management is embedded within the organisational culture and the corporate planning processes.

77. We shall continue to review the developing risk management arrangements over the course of our audit appointment.

5. Value for money

Using resources effectively and continually improving services

Main judgements

Scottish Forestry achieved 19 out of its 39 performance activities for 2020/21.

Performance reporting could be further improved by the development of measurable key performance indicators.

Best value arrangements

78. [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.

79. The Chief Executive of Scottish Forestry is the designated Accountable Officer. The Scottish Forestry Framework Document requires the Accountable Officer to report each year, in the annual report and accounts, on the steps taken in each financial year to improve efficiency, effectiveness and economy. The narrative included in the performance report and corporate governance report in the annual report and accounts covers this required detail. We would encourage Scottish Forestry to draw this material together in the governance statement of future annual reports and accounts.

Scottish Forestry achieved 19 out of its 39 performance activities

80. Scottish Forestry's performance is monitored by the Senior Executive Team and the Strategic Advisory Group. The Scottish Forestry Corporate Plan 2020-2023 identified three strategic objectives. In the 2020/21 Business Plan, nine priorities were identified with 39 activities detailed to address these priorities. Of these, 19 were achieved and 20 were ongoing. Most of these were qualitative in nature, and there was a limited number of priorities and activities which had measurable outcomes.

81. Scottish Forestry revised its priorities, and the activities to deliver these, in 2020/21. By revising priorities each year, it is harder to identify trends and demonstrate progress. Scottish Forestry recognises that work is still ongoing to develop its key performance indicators, and this work will continue into 2021/22.

82. We note that the woodland creation planting target of 12,000 hectares in 2020/21 was not explicitly referred to in any of the 2020/21 performance activities, although it is separately reported in the annual report and accounts. This target was not met in 2020/21 (10,600 hectares planted / 88%) due to a combination of Covid-19 restrictions, poor weather in the planting season, and EU exit.

The performance report will benefit from the development of measurable key performance indicators

83. In addition to the opinion on the performance report covered in [16.](#) of our Annual Audit Report, we also consider the qualitative aspects of Scottish Forestry'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.

84. Scottish Forestry has developed its performance report following prior audit recommendations. This report clearly reflects the nine priorities and associated activities outlined in the 2020/21 Business Plan. The report can be further improved by reporting on key performance indicators. Key performance indicators will also make an important contribution to internal performance management. The development of measurable indicators will create a clear and visible link between performance and strategic objectives and demonstrate Scottish Forestry's contribution to the Scottish Government's wider strategic aims and objectives. This will also allow for trends to be identified and reported as the organisation matures.

Recommendation 4

Key performance indicators with measurable outcomes should be developed. This will create a clear and visible link between performance and strategic objectives and demonstrate Scottish Forestry's contribution to the Scottish Government's wider strategic aims and objectives.

Appendix 1, Recommendation 4

Some services are delivered by Forestry and Land Scotland

85. A service level agreement, covering the period from 1 April 2019 to 31 March 2022 was agreed between Forestry and Land Scotland and Scottish Forestry following the establishment of the new agencies in April 2019. Forestry and Land Scotland provide a number of services on Scottish Forestry's behalf, including human resources, learning and development, digital services, payroll, and the financial ledger. This helps contribute to the efficient use of public sector resources.

86. A certificate of assurance was obtained from Forestry and Land Scotland at financial year-end, to provide assurance to the Accountable Officer of

Scottish Forestry over the services provided on its behalf, and to support the signing of the governance statement.

87. The service level agreement states that key performance indicators will be developed to monitor performance and the quality of services delivered. We note that these indicators have not yet been developed and encourage Scottish Forestry to work with Forestry and Land Scotland to develop a suite of indicators against which to monitor performance.

National performance audit reports

88. 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 3](#).

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Grant accruals</p> <p>Further improvements to the functionality of the Casebook grants system are required to fully meet Scottish Forestry's reporting needs.</p> <p>Risk: As the year-end grant accrual is based on information from Casebook, there is a risk that the information recorded in the financial statements is inaccurate.</p>	<p>Scottish Forestry should continue to develop the management reporting functionality in Casebook to ensure accurate information is available for financial reporting, monitoring, and addresses business needs.</p> <p>Exhibit 2, Point 1</p>	<p>Agreed. The creation and ongoing improvement of Management reports on casework and the grants finances is a priority piece of work that is being factored into SF's Improvement Programme. The prioritisation of the MI reports will be raised and monitored by the Grant Schemes Manager at the monthly SF Improvement Programme Steering Group. Resources of reports creation and testing will be made available from the business to support the Casebook development.</p> <p>Responsible officer: Grant Schemes Manager.</p> <p>Agreed date: February 2022</p>
<p>2. Management of budget and outturn</p> <p>A large underspend against budget was recorded in 2020/21. Scottish Forestry drew down all cash available from the Scottish Government, which ended up being in excess of requirements.</p> <p>Risk: There is a risk that budget projections are not accurate, leading to</p>	<p>Scottish Forestry should closely monitor projected spend to ensure that only cash required is drawn down.</p> <p>Exhibit 2, Point 2</p>	<p>As a result of the casebook report to ascertain the year end accrual only becoming available after the last drawdown date, this excess drawdown occurred. Through this report and other reports that are being written in casebook we will be able to closely monitor the projected spend thereby reducing the chance of this occurring again.</p> <p>Responsible officer: Grant Schemes Manager & Senior Finance Manager</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>challenges in cash management.</p>		<p>Agreed date: 31 March 2022</p>
<p>3. Financial and workforce planning</p> <p>A longer-term financial strategy has not yet been developed. Work continues to develop a workforce plan for the agency.</p> <p>Risk: In the absence of longer-term plans, there is a risk that Scottish Forestry does not have adequate resources in place to deliver on its objectives.</p>	<p>Scottish Forestry should develop a longer-term financial strategy, supported by clear and detailed financial plans, including consideration of different scenarios. Work should be progressed to develop a workforce plan.</p> <p>Paragraph 56.</p>	<p>Although annual Spending Reviews continue to be in place, longer term financial planning and workforce planning have been included in exercises undertaken during 2021. This includes SG's strategic approach to budgeting (five year expenditure commitments) and SF Team Planning as part of our Annual Business Planning exercise. Regular staffing updates which include vacancies, new approved posts and expected recruitment. This information will continue to be developed to improve our long term finance and workforce planning capabilities.</p> <p>Responsible officer: Head of Finance & Business Support</p> <p>Agreed date: Ongoing</p>
<p>4. Performance measurement</p> <p>Scottish Forestry do not have key performance indicators with measurable outcomes. These should be developed to demonstrate a clear and visible link between performance and strategic objectives.</p> <p>Risk: There is a risk that Scottish Forestry cannot clearly demonstrate its contribution to the Scottish Government's wider aims and objectives.</p>	<p>A suite of measurable key performance indicators should be developed by Scottish Forestry.</p> <p>Paragraph 84.</p>	<p>Work is progressing to have measurable performance indicators reported to management during the year and these will be included in the 2021-22 Annual Report & Accounts. Further development of KPI's will continue to be managed and co-ordinated through the Lead Business Analyst and Corporate Planning & Governance roles.</p> <p>Responsible officer: Head of Executive Office & Head of Operational Services & Transformation</p> <p>Agreed date: Ongoing</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Grant system reporting</p> <p>The Casebook Grants System does not have the full functionality to provide a detailed listing of all grants accrued.</p> <p>Risk - There is a risk that inaccurate information is reported, resulting in a misstatement in the Financial Statements.</p>	<p>Scottish Forestry should continue to develop the Casebook grants system to ensure a whole suite of management information is available to support both the expenditure during the year and the year-end accrual.</p>	<p>As noted previously, the functionality of the Casebook grants system was improved during 2020/21. Scottish Forestry continue to develop system functionality to ensure it fully meets the agency's reporting needs. Refer to Action Plan Point 1 above.</p> <p>Complete for 2020/21</p>
<p>2. EU Income</p> <p>The 2019/20 Financial Statements includes £21.6m accrued income relating to the EU funding element of Forestry Grant Scheme claims.</p> <p>Risk - Given the significance of the EU income accrual and the complex regulatory environment surrounding EU funding, there is a risk that some funding may be disallowed.</p>	<p>Scottish Forestry should ensure that all relevant grant conditions are met, together with the retention of required evidence.</p>	<p>Our audit work did not identify any evidence of disallowed funding relating to 2019/20.</p> <p>We review this each year, and no issues were identified in 2020/21.</p> <p>Complete for 2020/21</p>
<p>3. Medium to Long term financial planning</p> <p>Scottish Forestry have yet to develop a longer-term financial plan.</p> <p>Risk - In the absence of longer-term financial planning there is a risk that financial limitations are not identified, impacting on the ability to achieve objectives.</p>	<p>Scottish Forestry should develop a medium to longer term financial strategy, supported by clear and detailed financial plans which align with the objectives in the Corporate Plan. This should help identify future challenges and potential savings plans in the medium term.</p>	<p>A medium to long term financial strategy is still to be developed.</p> <p>Refer to Action Plan Point 3 above.</p> <p>Ongoing</p>
<p>4. Performance report</p> <p>The performance report could be enhanced by using diagrams and tables and by</p>	<p>Scottish Forestry should review the content and presentation of its performance report to ensure it takes full advantage of the</p>	<p>Management have developed the information included in the performance report in relation to organisational priorities.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>linking better the individual sections.</p> <p>Risk - There is a risk that the information provided in the performance report is unclear or misstated leading to a lack of clarity.</p>	<p>opportunity to communicate directly to stakeholders about its activities.</p>	<p>Clearer linkages between strategic objectives, performance indicators and priorities are required.</p> <p>Clearly measurable key performance indicators should be developed. Refer to Action Plan Point 4 above.</p> <p>Ongoing</p>
<p>5. Governance statement</p> <p>The assurance checklists do not contain the same coverage and level of detail covered by the SPFM example.</p> <p>Risk - There is a risk that key issues are not identified and highlighted to the Chief Executive as part of the assurance process.</p>	<p>The example assurance checklist provided in the SPFM should be reviewed and applied to Scottish Forestry. This will provide better alignment to the process applied by the Scottish Government and will provide a more complete picture of the internal control process in operation.</p>	<p>Scottish Forestry's 2020/21 assurance checklists cover all areas included in the SPFM example.</p> <p>Complete</p>
<p>6. Impact of Covid-19</p> <p>The scale and pace of change as a result of Covid-19 poses a risk to the key financial controls within the finance department.</p> <p>Risk - There is a risk that new processes and controls introduced during the pandemic are ineffective.</p>	<p>Scottish Forestry should ensure that internal controls remain effective during this period of uncertainty and new ways of working.</p>	<p>All finance processes were carried out remotely during 2020/21.</p> <p>Our audit review did not identify any specific issues with key processes or controls.</p> <p>Complete</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 material misstatements due to fraud caused by the management override of controls</p> <p>International Auditing Standards (ISA 240) 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 management override of controls that result in fraudulent financial statements.</p>	<p>Testing of journal entries.</p> <p>Focused testing of year-end payables and receivables.</p> <p>Identification and evaluation of significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the year-end to confirm expenditure and income have been accounted for in the correct financial year.</p>	<p>We did not identify any issues as a result of our audit work that would indicate management override of controls affecting the year-end position.</p> <p>Satisfactory</p>
<p>2. Risk of material misstatement caused by fraud over grant expenditure</p> <p>In line with Practice Note 10 (2020), most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<p>Sample testing of 2020/21 grants paid in year to ensure grants only paid when there is evidence grants conditions have been met.</p> <p>Sample testing of grants committed to, but not paid by year-end to ensure they can be agreed to an agreed schedule of works and subsequent payment where possible.</p>	<p>We carried out controls and substantive testing including checks that grant conditions had been met for a number of grants paid and grants accrued in year. We tested grants paid after year-end to confirm expenditure had been accounted for in the correct financial year.</p> <p>Our work did not identify any issues.</p> <p>Satisfactory</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Scottish Forestry incurs significant expenditure in grant payments (2019/20 £52.2 millions) to individuals and organisations including private woodland owners. There is an inherent risk of fraud in the payment of grants.</p>	<p>Sample testing of grants committed to after the year-end to confirm expenditure has been accounted for in the correct financial year.</p>	
<p>3. Risk of uncertainty over EU income</p> <p>Scottish Forestry is responsible for delivering the Forestry Grant Scheme (FGS) and two legacy schemes under the Scottish Rural Development Programme. The schemes are currently partly funded by the EU and therefore Scottish Forestry must comply with EU regulations.</p> <p>In 2019/20, £21.7 million of EU funding was accrued relating to grant payments made by Scottish Forestry for which EU funding was to be claimed in 2020/21.</p> <p>There is a risk that approved expenditure does not comply with EU regulations and therefore Scottish Forestry do not fully recover the income accrued.</p>	<p>Sample testing of 2020/21 grant payments to ensure EU regulations have been complied with.</p> <p>Sample testing of post year-end receipts to confirm the accuracy of income accrued and ensure income is accounted for in the correct financial year.</p> <p>Minute reviews of joint SGRPID (Scottish Government's Rural Payments and Inspections Directorate) and Scottish Forestry meetings.</p>	<p>Our testing of grant claims and the year-end grant accrual identified no specific issues.</p> <p>Internal audit provided reasonable assurance from its work on grants in 2020/21.</p> <p>We have been advised by management that there are no potential disallowances for 2020/21 grant payments. Our review of minutes did not identify any potential disallowances.</p> <p>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. Achievement of targets</p> <p>Scottish Forestry's delivery against key targets continues to be challenging. For example, woodland creation</p>	<p>Monitor progress in developing workforce and financial planning.</p> <p>Review financial and performance monitoring</p>	<p>Work has been started to look at the finances required to deliver the future planting programme, and this includes consideration of staffing.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>has a target of 18,000 hectares by 2024.</p> <p>Additional resources, in terms of staffing and budget, will be required to deliver on its commitments.</p> <p>There is a risk that, without detailed workforce or financial plans in place Scottish Forestry will not be able to anticipate the resources required to achieve its objectives.</p>	<p>and reporting during the year.</p>	<p>However, there are no medium to long-term financial plans in place, and this should be supported by a workforce plan.</p> <p>Refer to Appendix 1, action plan 3</p>

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 Forestry

2020/21 Annual Audit Report

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