

Scottish Forestry External Audit Plan

**Year ending
31 March 2023**

29 March 2023



Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of Scottish Forestry for those charged with governance.

We are appointed by the Auditor General as the external auditors of Scottish Forestry for the five-year period 2022/23 to 2026/27.

Respective responsibilities

Audit Scotland has issued an updated Code of Audit Practice ('the Code') covering this audit appointment period. There are no significant changes in the scope of our work compared to the previous 2016 Code. However, the 2021 Code applies the requirement to communicate key audit matters to all bodies, but requires them to be reported in the Annual Audit Report.

The Code summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the Scottish Forestry are summarised in Appendix 1 of this Audit Plan. We draw your attention to this and the Code.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on Scottish Forestry's financial statements, which have been prepared by management with the oversight of those charged with governance (the Audit and Assurance Committee). Our audit of the financial statements does not relieve management or the Audit and Assurance Committee of your responsibilities.

It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. As part of our wider scope work, we will consider how you are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of Scottish Forestry and is risk based.



Plan overview

The audit plan sets out our risk based audit approach for Scottish Forestry. This plan outlines our initial risk assessment and is reported to those charged with governance (Audit and Assurance Committee) and will be shared with Audit Scotland.

01 Materiality

We have calculated our planning materiality using prior year gross expenditure as per audited 2021/22 financial statements as our benchmark, resulting in the following:

- £1,081,000 planning materiality which is set at 1.5% of gross expenditure.
- Performance materiality of £648,600 is based on 60% of planning materiality.
- Trivial of £54,100 is based on 5% of planning materiality.
- A lower materiality will be used on:
 - £5,000 for the audit of the Remuneration and Staff Report.
- We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2022/23.

02 Financial statement audit

At planning, in accordance with the ISA's (UK) and Practice Note 10 (Revised 2020) 'The Audit of Public Sector Financial Statements' issued by the Public Audit Forum we have identified the following significant financial statement audit risks:

- Management override of controls (ISA (UK) 240); and
- Risk of fraud in expenditure recognition – non payroll expenditure (PN10);

Two revised Auditing Standards (ISA (UK) 315 (Revised July 2020) ISA (UK) 240 (Revised May 2021)) will be applicable to your audit for the first time in 2022/23. Further detail on the impact of these revised standards is set out in the appendices.

03 Wider Scope and Best Value Audit

In accordance with the Code, our planning considers the wider scope and Best Value areas of audit.

We have identified the following wider scope significant risk in relation to:

- Financial sustainability – future financial plans for 2023/24 and beyond.

We have not identified any other significant risks in relation to the other wider scope areas of audit or in Scottish Forestry's arrangements for securing Best Value from our initial planning work.

We will be undertaking work in all wider scope Code areas to gain an understanding of the arrangements in place and may update our planning assessment dependent upon findings.

We review your arrangements before we issue our Annual Report.

Plan overview (continued)

04 Other audit matters

We summarise other audit matters for Audit and Assurance Committee awareness. This includes:

- In accordance with the Code and planning guidance, we also complete and submit a number of deliverables during the year, including sharing intelligence with Audit Scotland, and completing Audit Scotland data sets
- Consideration of going concern in accordance with Practice Note 10.

05 Our Audit Fee

Audit fees were shared by Audit Scotland with Scottish Forestry in December 2022. Our fee agreed with Scottish Forestry is £52,520. This fee includes:

- Auditor remuneration £58,610
- Pooled costs £3,890;
- Sectoral cap adjustment of -£12,040 and
- Contribution of £2,060 to Audit Scotland costs.

Audit fees are paid to Audit Scotland who in turn pay Grant Thornton UK LLP.

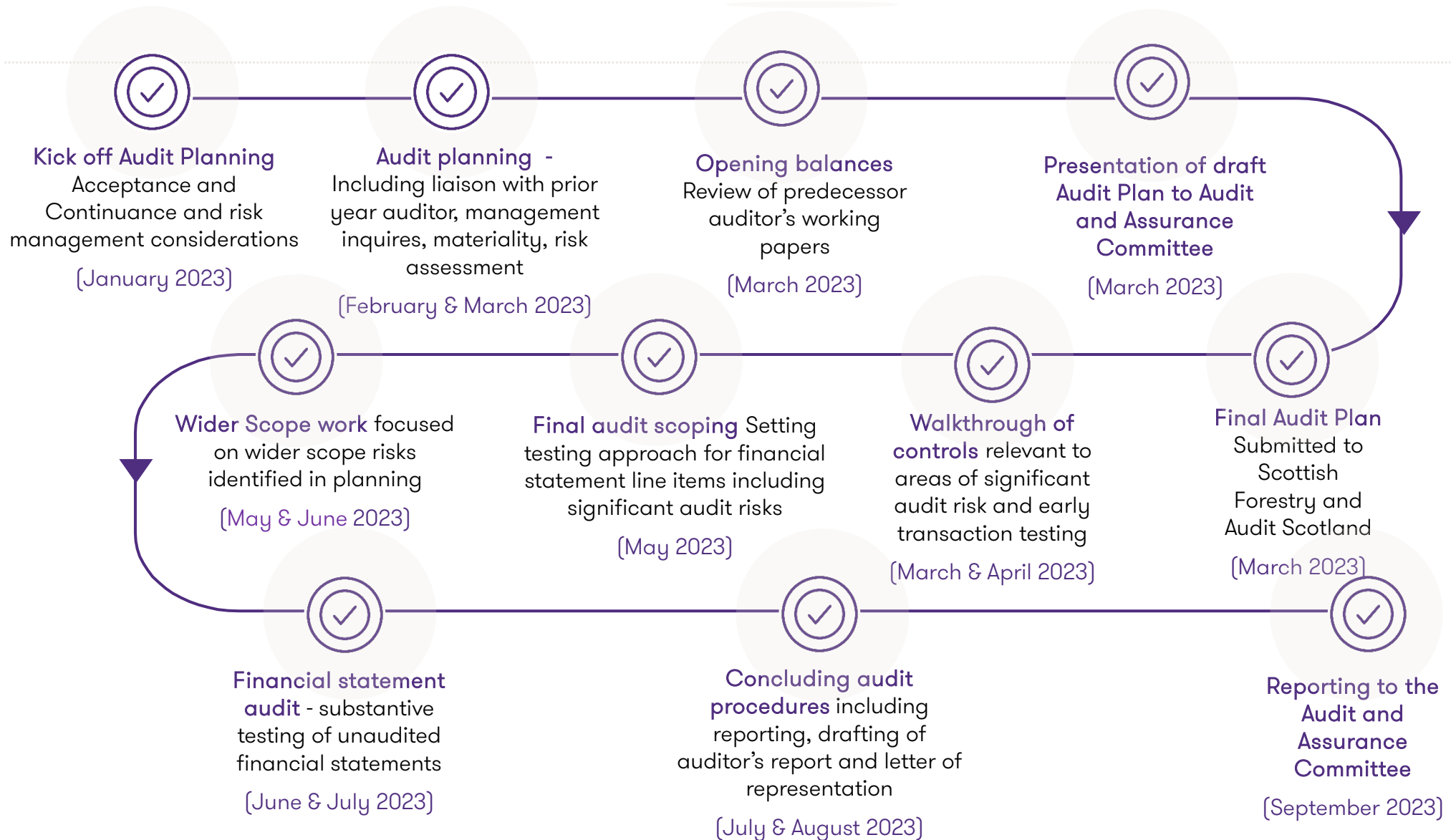
We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

06 Adding Value Through the Audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials. We use our LEAP audit methodology and data analytics to ensure delivery of a quality audit.

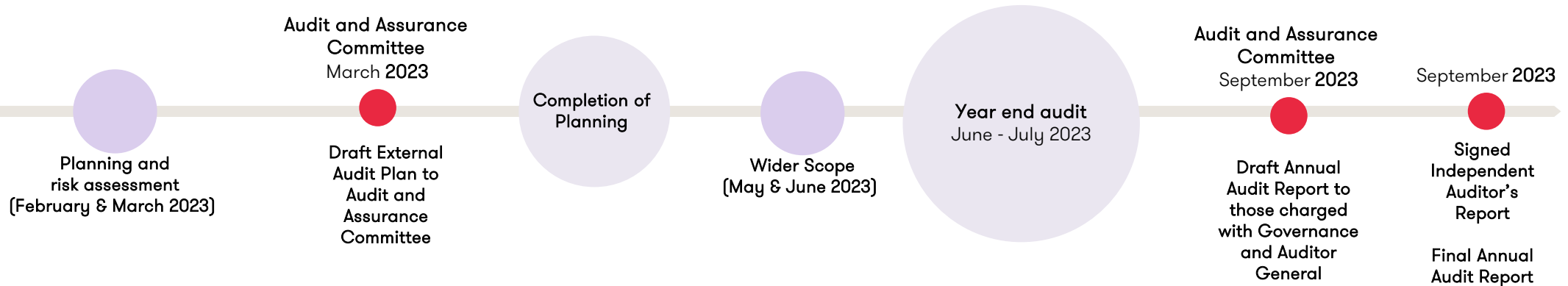
As we undertake our first year as your new auditor, we will bring a fresh perspective by implementing an element of unpredictability in our testing to highlight areas of risk and improvements that can be made through both the financial statement and wider scope and best value audit.

Audit approach



Audit timeline

The target dates specified by Audit Scotland for submission of audit plans, audited accounts and the Annual Audit Report have been brought forward in the 2021 Code. We are required to submit audit plans to Audit Scotland by 31 March 2023, and it is anticipated that we will have drafted our Annual Audit Report and shared with management by 31 August 2023. However, the earliest that the Audit and Assurance Committee can convene is September 2023, therefore, submission of the audited accounts and Annual Audit Report will not be made by the targeted deadline of 31 August 2023. We have set out below our planned timescales for the Scottish Forestry audit.



Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging our other audit engagements. Where additional resources are needed to complete the audit due to an audited body not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

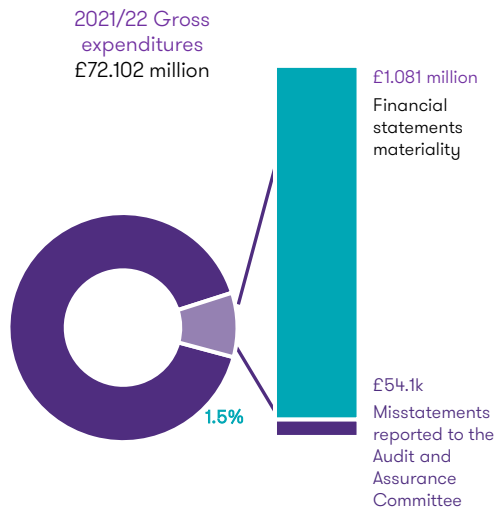
Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft accounts, comprising financial statements and related reports, of good quality, by the deadline you have agreed with us
- prepare good quality working papers which support the figures included in the financial statements, in line with the working paper requirements schedule that we have shared with you, and make these available to us at the start of the year end audit visit
- provide all agreed data reports to us at the start of the audit, which are fully cleansed and reconciled to the figures in the financial statements
- ensure that all appropriate staff are available to us for queries over the planned period of the audit, or as otherwise agreed
- respond promptly and appropriately to all audit queries, within agreed timescales.

Materiality

Financial statement materiality is determined based on a proportion of gross expenditure. We have determined **planning materiality** to be £1.081 million, which equates to approximately 1.5% of gross expenditure as per the 2021/22 audited financial statements.



Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 60% of planning materiality (£648.6k). This is based on our understanding of Scottish Forestry and our overall risk assessment procedures.

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We apply a separate **lower materiality level** in the following areas:

- £5,000 for the audit of the Remuneration and Staff Report

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be £54.1k, being 5% of planning materiality.

We will revisit our materiality based on the unaudited 2022/23 financial statements when received in May 2023. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Significant audit risks (1)

Significant risks are defined by ISAs(UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Management Override of Controls (as required by Auditing Standards – ISA (UK) 240)

As set out in ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity's internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions.

We will:

- Document our understanding of and evaluate the design effectiveness of management's key controls over journals;
- Analyse your full journal listing for the year and use this to determine our criteria for selecting high risk journals;
- Test the high-risk journals we have identified;
- Gain an understanding of the critical judgements applied by management in the preparation of the financial statements and consider their reasonableness;
- Gain an understanding of the key accounting estimates made by management and carry out substantive testing on in scope estimates.
- Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK) 315)

Significant audit risks (2)

Risk of Fraud in Expenditure (as recommended in Practice Note 10)

As set out in practice note 10 (Revised 2020) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.

Scottish Forestry's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as a result of fraud to occur in this area.

We therefore focus our risk on the following non-payroll expenditure streams:

- Programme costs (support for forestry and the rural economy including grants paid to private woodland owners, Forestry Development Programmes and Timber Transport Fund).
- Other administrations costs (includes the costs of shared central services provided to Scottish Forestry and other administration expenditure).

Our testing will include a specific focus on year end cut-off arrangements, including consideration of the existence of accruals and provisions.

We will:

- Evaluate your accounting policy for recognition of expenditure for appropriateness and compliance with the FReM;
- Perform detail testing of expenditure transactions at and around year end to verify the accounting period transactions relate to and confirm that transactions have been recognised in the correct accounting period;
- Review the judgements and estimates made by management when recognising accruals and provisions at year end within the financial statements and where appropriate challenge management accordingly.

Significant audit risks (3)

Risk of Fraud in Revenue (as required within Auditing Standards- ISA (UK) 240)

As set out in ISA (UK) 240 (Revised May 2021) there is a presumed risk that revenue may be misstated due to improper recognition of revenue in all entities.

The risk of management manipulation and fraud is deemed to be low in relation to revenue received through funding direct from the Scottish Government as this confirmed directly, reducing the opportunity for manipulation.

Other income, not received in this way, includes planting grant co-financing income, other income and operating income. In 2021/22, this amounted to £14.961m and given the nature of the organisation and with the exit from the EU, grants approved after 31 December 2020 are not eligible for co-financing income, this figure is diminishing, reducing the opportunity for manipulation and the inherent risk of material misstatement in revenue recognition.

We have therefore rebutted the risk of fraud in revenue in relation to these income streams.

We will communicate significant findings on these areas, as well as any other significant matters arising from the audit to you, in our Annual Report to those Charged with Governance and the Auditor General for Scotland in August 2023.

Other risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---------------------------|--|---|
| Implementation of IFRS 16 | <p>IFRS 16 was implemented by central government bodies under the FReM from 1 April 2022. Under IFRS 16 a lessee is required to recognise right-of-use assets and associated lease liabilities in its Statement of Financial Position. This will result in significant changes to the accounting for leased assets and the associated disclosures in the financial statements in the year ended 31 March 2023.</p> <p>Further detail on the implications of this Accounting Standard is set out in the Appendices.</p> | <p>Our initial discussions with officers at Scottish Forestry, and our review of the predecessor auditor's work in 2021/22, have indicated that:</p> <ul style="list-style-type: none"> - Scottish Forestry has established systems and processes to capture the data required to account for right-of-use lease assets in accordance with IFRS 16 - revised its accounting policies for the year ended 31 March 2023 to reflect the requirements of this accounting standard. <p>We will assess the existence, accuracy and completeness of the right-of-use assets and associated lease liabilities, and the related disclosures, during our audit.</p> |

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Annual Audit Report.

Other matters (1)

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2022/23 issued by Audit Scotland:

- We audit parts of your Remuneration and Staff Report in your Annual Report and check whether these sections have been properly prepared (opinion).
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in the FReM (opinion).
- We consider our other duties under the Code and planning guidance (2022/23), as and when required, including:
 - Supporting Audit Scotland in Section 22 reporting
 - Providing regular updates to Audit Scotland to share awareness of current issues
 - Notifying Audit Scotland of any cases of money laundering or fraud
 - Review of Central Government Technical guidance prior to issue by Audit Scotland.

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a “SORP-making body” for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 was updated in 2020 to take account of revisions to ISAs (UK), including ISA (UK) 570 (Revised September 2019) on going concern.

PN 10 allows auditors to apply a ‘continued provision of service approach’ when auditing going concern in the public sector, where appropriate. Audit Scotland’s also issued further guidance in a Going Concern publication in December 2020).

Within our wider scope work, we will conclude on Scottish Forestry’s arrangements to ensure financial sustainability.

Other matters (2)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be considered as part of our audit. However, the procedures will not be as extensive as the procedures adopted for the significant risks we have identified and highlighted in this Audit Plan.

Internal control environment

During our initial audit planning we will develop our understanding of your control environment (design) as it relates to the preparation of your financial statements. In particular, we will:

- Consider key business processes and related controls
- Assess the design of key controls over all significant risks we have identified. This will include key controls over: expenditure, journal entries and material areas of management estimate and judgement.

Our focus is on design and implementation of controls only. We do not intend to assess, or place any reliance on the operating effectiveness of your controls during our audit.

Audit handover

To facilitate effective audit planning and deliver an efficient audit we gain a detailed understanding of Scottish Forestry from discussions with key personnel at the entity, internal audit and the prior year auditor, attendance at Audit and Assurance Committee meetings and review of key documents.

In line with Audit Scotland's Handover guidance, we seek to place as much assurance as possible on your previous auditor's work on your opening balances. We visited your previous auditor on 20th February and 6th March and reviewed their prior year audit working paper files.

We will consider any findings from this review on our risk assessment for the current year.

Financial reporting developments

During our audit we will actively discuss emerging financial reporting developments with you. The key financial reporting development for 2022/23 central government audits is the implementation of IFRS 16 from 1 April 2022.

Other matters (3)

Progress against prior year audit recommendations

The predecessor auditor identified the following issues in their 2021/22 audit of Scottish Forestry's financial statements, which resulted in 6 recommendations being reported in their 2021/22 Annual Audit Report.

As part of our final accounts we will follow up on the implementation of these prior year recommendations in full. The response at this stage for our Plan, is management's response.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue (Management Response) |
|------------|--|---|
| Ongoing | <p>1. Management of budget and outturn</p> <p>A large underspend against budget was recorded in 2021/22. Scottish Forestry drew down all cash available from the Scottish Government, which ended up being £16.3 million in excess of requirements.</p> <p>Risk: There is a risk that budget projections are not accurate, leading to challenges for cash management.</p> | <p>Scottish Forestry normally provide for 10% of grant claims not being claimed in year, but this is dependent on weather, with the main planting season coming late in the financial year. The issue with 2021/22 was the storms at the end of the financial year which diverted planting workers into felling / clearance workers instead, resulting in a 20% reduction in claims.</p> <p>Scottish Forestry are improving the estimations taking into account the weather and data from land agents.</p> |
| Ongoing | <p>2. Grant accruals and Casebook grant reporting system</p> <p>The Casebook reporting on grant accruals did not provide complete listings resulting in the accrual in the draft accounts being understated.</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 has ongoing development for more relevant and accurate grants based reports from Casebook. Casebook does not capture annual management resource nor manual payments and so Casebook reports will not be able to provide a full understanding without manual intervention. The end of the 2022/23 financial year grant claim administration has been planned and communicated to staff to agree a final capture date for all capital claims into casebook so we can identify the population of capital FGS accruals. However, a risk still exists in the manual reporting of the annual resource spend plus manual payments. The recording of manual payments has been improved following audit comments and recommendations, thus mitigating the risk of inaccuracies and omissions.</p> |

Other matters (4)

Progress against prior year audit recommendations (continued)

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue (Management Response) |
|------------|--|--|
| Closed | <p>3. Monitoring manual succession contracts</p> <p>These contracts are managed manually and therefore do not have the same workflows as those recorded on Casebook and the system, therefore any errors may not be readily identified.</p> <p>Risk: Payments are not made on a timely manner and transactions are not recorded correctly in the ledger.</p> | <p>The risk associated with manually administering succeeded contracts will not be resolved by either Rural Payments and Inspections Division or Casebook functionality, as the governance of both systems cannot provide the required significant resources needed to deliver this recommendation. This will be raised into the Scottish Forestry corporate risk register just as it appears in the Paying Agency Accreditation & Assurance risk register.</p> <p>Following comments and recommendations received from the last audit, Scottish Forestry's manual spreadsheet recording and processes have been improved and backed up by guidance for the national support team who oversee all successions at a national level – thus, reducing the risk of any inaccuracies and omissions.</p> |
| Ongoing | <p>4. Small Woodland Loan Scheme</p> <p>The loan scheme is in its first year and therefore processes for understanding the profile of repayments is still to be developed. In addition, as this scheme grows and becomes significant to the accounts, further reporting is required.</p> <p>Risk: Reporting of the loan scheme in the financial statements is inaccurate.</p> | <p>With 2021/22 being the first year of the loans a prudent view was taken at the year end. Now, during 2022/23 the first of the loans have now been repaid and therefore a less prudent view can be taken as agreed with Audit Scotland.</p> <p>The loans now in general will not be provided, but a review will take place by the Senior Finance Manager for loans that are beyond 18-24 months old</p> |

Other matters (5)

Progress against prior year audit recommendations (continued)

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue (Management Response) |
|------------|---|---|
| Ongoing | <p>5. Financial and workforce planning A longer-term financial strategy has not yet been developed. An overarching work force strategy is not yet in place.</p> <p>Risk: In the absence of longer-term strategies, there is a risk that Scottish Forestry does not have adequate resources and capacity in place to deliver on its objectives.</p> | <p>Although a formal financial strategy document has not yet been put in place we have continued to actively undertake long term forecasting as part of SG budget related commissions. Most recently (Feb 23) with the SG Path to Balance exercises which contain forecasting from 2023/24 to 2027/28 for both Capital and Resource spending plans. We will still aim to draft and implement a financial strategy next financial year.</p> <p>A draft Workforce strategy has now been completed and will be presented to SET in March 2023 for agreement to publish. SF management will continue to use staffing MI to also inform financial forecasting.</p> |
| Ongoing | <p>6. Performance reporting The performance report does not have measurable targets and KPIs beyond planting to demonstrate Scottish Forestry's performance.</p> <p>Risk: There is a risk that Scottish Forestry cannot clearly demonstrate its contribution to the Scottish Government's net-zero aims.</p> | <p>The annual report doesn't reflect the full range of current KPIs. The current suite of KPIs will be reviewed and updated as part of the current work to produce the new Corporate Plan for 2023-26 to ensure they are aligned to SMART principles. The new Corporate Plan will be published in summer 2023, following a public consultation. Our organisational priorities and objectives for 2023/24 are set out in the current annual Business Plan, and when producing this year's annual report we will aim to report in a more comprehensive manner the range of objectives we have met, more than focusing just on woodland creation.</p> |

Wider scope risks identified in planning (1)

Our responsibilities under the Code extend beyond the audit of the financial statements. The Code sets out four audit dimensions that frame wider scope into identifiable areas. These four dimensions have been slightly amended in the 2021 Code as shown in the table below.

| 2016 Code | 2021 Code |
|-----------------------------|--------------------------------------|
| Financial Sustainability | Financial Sustainability |
| Financial Management | Financial Management |
| Governance and transparency | Vision, Leadership and Governance |
| Value for Money | Use of Resources to Improve Outcomes |

We consider each of these areas through our audit planning process and have set out below the identified areas of risk for our wider scope work.

From our initial planning work, we have identified one significant risk in relation to Financial Sustainability. We have not identified risks in relation to Financial Management; Vision, Leadership and Governance; and Use of Resources from our initial planning work. We will continue to review your arrangements before we issue our Annual Report.

Financial sustainability

Significant risk work area - future financial plans for 2023/24 and beyond

For 2022/23, the original baseline budget, as set out within the Scottish Budget was £90.864m however, during the year, due to in-year budget revisions, this has reduced by £6.1m to £84.764m. For 2023/24, the Scottish Budget was laid before the Scottish Parliament in December 2022 and indicated that the budget for Scottish Forestry would be £102.4m.

Wider scope risks identified in planning (2)

Financial sustainability - continued

Scottish Forestry prepared forecasts for future resource and capital requirements over the next five years and has developed plans for staff resources in 2022/23. However, Scottish Forestry do not have any longer-term financial plans and with the likelihood of an efficiency/savings % being applied to budgets, this becomes increasingly important.

We will seek to understand the future financial forecasts and plans for Scottish Forestry for 2023/24 and beyond, including key assumptions used, scenario planning, sensitivity analysis, risk analysis and the extent of funding shortfalls. We will also consider the action Scottish Forestry is taking to address identified funding gaps and associated savings plans, where relevant. Our work will also include following-up on the prior year recommendation in respect of longer-term financial planning made by your predecessor auditor (as reported on page 17).

Financial management

We have not identified a risk in relation Scottish Forestry's financial management from our initial planning work. At October 22, Scottish Forestry's forecast spend was £85.174m resulting in a small overspend of £0.411m. Key areas of challenge include inflationary pressures and increased service agreement costs. We understand that the forecast gap has since reduced due to action taken by the entity through non-recurring savings to bring the forecast funding gap back in line with the budgeted position.

The use of non-recurring savings bridges Scottish Forestry's financial position temporarily for 2022/23 only and does not address the underlying issues looking forward. As part of a recent SG savings exercise targeting Resource spend SF have agreed to release a 2% savings/efficiency offering from their Programme & Running costs budget. This equates to a £400k reduction in this budget area which covers Salaries, administration and running costs and other programme funding.

We will seek to understand the effectiveness of Scottish Forestry's effectiveness of the budgetary control system in communicating accurate and timely financial performance, including the arrangements for identifying, monitoring and reporting of savings. We will consider the overall financial position reached by Scottish Forestry and we will seek to understand the future financial implications of this.

Wider scope risks identified in planning (3)

Vision, Leadership and Governance

We have not identified a risk in relation Scottish Forestry's arrangements for vision, leadership and governance from our initial planning work. We will continue to review your arrangements before we issue our Annual Report.

We will review the effectiveness of your scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Our work will also include reviewing the consistency of your Governance Assurance Statement with the key findings from audit, scrutiny, and inspection.

Use of Resources to Improve Outcomes

We have not identified a risk in relation Scottish Forestry's use of resources to improve outcomes from our initial planning work. Over the last year, work has been done to draft a Workforce strategy and this currently ready for internal approval. This will be presented to the Senior Executive Team in March 2023 for approval and agreement to publish. Scottish Forestry's management will continue to use staffing management information to also inform financial forecasting. Scottish Forestry has seen significant investment in staffing resource and the majority of the recruitment activity will conclude this financial year. The costs of this will fully impact on staffing costs in 2023/24. In addition, further pressures will be created following impending pay increase negotiations.

We will review the arrangements that Scottish Forestry has developed to address workforce challenges and improve performance, including performance against standards/targets. We will also consider the arrangements Scottish Forestry has in place to meet outcomes and improvement objectives, for working with strategic partners and communities and reporting performance against outcomes, financial and other resources.

Other wider scope areas

In addition to the wider scope risks set out above, Audit Scotland's Planning Guidance 2022/23 requires us to consider we will consider the following national risks as part of our wider Scope work:

- Climate change – Auditors are required to provide answers to six specified questions in a mandated return to Audit Scotland and include appropriate reference in our Annual Audit Report.
- Cyber security – Auditors are required to consider risks related to cyber security at audited bodies as part of their work on the financial statements audit in line with guidance issued by Audit Scotland's Digital Audit Team. As required by the planning guidance we will to report any significant incidents, issues or areas of good practice to Audit Scotland's Digital Audit team .

Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC on audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the Scottish quality framework.

Audit fees were shared by Audit Scotland with Scottish Forestry in December 2022. Our audit fee was agreed with the Head of Finance and Business Support and confirmed at the Audit and Assurance Committee on 29 March 2023, and this is set out on page 22 of this Audit Plan. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified.

We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit Fees (continued)

Audit fees for 2022/23

| Service | Fees £ |
|--|----------------|
| External Auditor Remuneration | £58,610 |
| Pooled Costs | £3,890 |
| Contribution to Audit Scotland support costs | £2,060 |
| Contribution to Performance Audit and Best Value | Nil |
| Sectoral cap adjustment | -£12,040 |
| 2022/23 Fee | £52,520 |

Additional Fees (Non-Audit Services)

| Service | Fees £ |
|---|--------|
| At planning stage, we confirm there are no planned non-audit services | Nil |

Fee assumptions

In setting the fee for 2022/23 we have assumed that you will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence for all critical and significant judgements and estimates made in preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- ensure that all appropriate staff, including valuation experts are available to us for queries over the planned period of the audit , or as otherwise agreed.

Adding value through the audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials and our LEAP audit methodology and use of data analytics to ensure delivery of a quality audit.

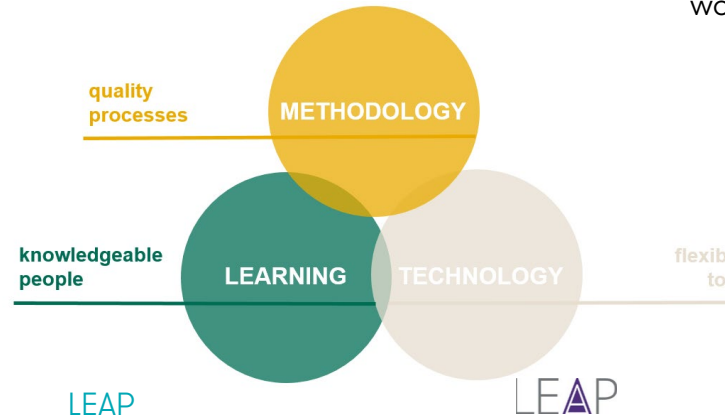
Our audit methodology is risk based and includes developing a good understanding of Scottish Forestry. The diagram opposite summarises how our methodology and use of data adds value to our audit.

We comply with UK Auditing Standards and as a Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest through our Audit Investment Plan, which is supported by a specific national Public Sector Investment Plan.

We comply with Audit Scotland's quality arrangements, including submitting an Annual Quality Report on our Audit Scotland portfolio. Audit Scotland's quality report for 2021/22 can be found on the [Audit Scotland website](#).

Our wider quality arrangements are set out in our annual transparency reports which are available on our website here: [Annual report 2021](#).

Use of audit, data interrogation and analytics software



LEAP

- A globally developed ISA-aligned methodology that re-engineers our audit approach to focus on quality and effectiveness
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- The LEAP approach allows us to tailor the audit programme to help engagement teams respond quickly to any changes as they occur, keeping quality high through responsiveness and flexibility.

Info



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST AND SHARE

- Communicate and transfer documents securely; Extract data directly from client systems; Work flow assignment and progress monitoring



ASSESS AND SCOPE

- Compare balances and visualise trends; Understand trends and perform more granular risk assessment



VERIFY AND REVIEW

- Automate sampling; Download automated work papers



INTERROGATE AND EVALUATE

- Analyse 100% of transactions quickly and easily; Identify high risk transactions for investigation and testing; Provide client reports and relevant benchmarking KPIs



FOCUS AND ASSURE

- Visualise relationships impacting core business cycles; Analyse 100% of transactions to focus audit on unusual items; Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports

Appendices

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Independence

Auditor independence

Ethical Standards and ISA (UK) 260 'Communication with Those Charged With Governance' require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the Firm, or covered persons, relating to our independence.

We encourage you to contact us to discuss any independence issues, with us and will discuss the matter with you if we make any significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors of Scottish Forestry that we are required to report or wish to draw to your attention.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the 2019 Ethical Standard.

Our team complete annual fit and proper declarations, including independence confirmations, as well as confirming independence from individual audited bodies when completing timesheets. The work of our Ethics team is overseen by our Ethics partner and all staff undergo regular ethics training each year.

We confirm we are independent of Scottish Forestry.

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. We did not provide any non-audit or additional services to Scottish Forestry prior to our appointment as auditors.



Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

Scottish Forestry

Your responsibilities include:

- Maintaining adequate accounting records and working papers
- Preparing accounts for audit, comprising financial statements, which give a true and fair view, and related reports
- Establishing and maintaining a sound system of internal control
- Establishing sound arrangements for proper conduct of affairs, including the regularity of transactions
- Maintaining standards of conduct for the prevention and detection of fraud and other irregularities
- Maintaining strong corporate governance arrangements and a financial position that is soundly based
- Establishing and maintaining an effective internal audit function.

External Audit

Our responsibilities include:

- Compliance with the FRC Ethical Standard
- Compliance with the Code and UK Auditing Standards (ISA's UK) in the conduct and reporting of our financial statements audit
- Compliance with the Code and guidance issued by Audit Scotland in the conduct and reporting of our wider scope work
- Providing assurance on specified returns and other outputs (where required), as specified in guidance issued by Audit Scotland
- Liaison with and notifying Audit Scotland when circumstances indicate a statutory report may be required.
- Contributing to relevant performance studies (as set out in Audit Scotland's Planning Guidance for 2022/23).



Communication

ISA (UK) 260 'Communication with Those Charged With Governance', as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (the Audit and Assurance Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Audit and Assurance Committee.

| | Audit Plan | Annual Report (our ISA 260 Report) |
|---|------------|------------------------------------|
| Our communication plan | | |
| Respective responsibilities of auditor and management/those charged with governance | • | |
| Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks | • | |
| Confirmation of independence and objectivity | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant matters in relation to going concern | • | • |
| Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud | • | • |
| Views about the qualitative aspects of Scottish Forestry's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures | | • |
| Significant findings from the audit | | • |
| Significant matters and issues arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report or emphasis of matter | | • |

Fraud responsibilities

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on Scottish Forestry was the year ended 31 March 2023. Requirements in ISA (UK) 240 (Revised May 2021) have been enhanced for the identification and assessment of risks of material misstatement due to fraud and the response to those risks.

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Scottish Forestry.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is **Scottish Forestry's** responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

As auditors, we are required to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

As part of our risk assessment procedures we are required to:

- identify and assess the risks of material misstatement in the financial statements due to fraud, including financial misreporting and misappropriation of assets.
- hold separate discussions with management, those charged with governance and others (as appropriate) to gain insights on their views of fraud.

Fraud responsibilities (continued)

During our audit work we will:

- design and implement appropriate audit procedures to respond to the risks of misstatement we have identified and reported in this Audit Plan
- remain alert to new risks and amend our risk assessments accordingly
- respond appropriately to any risks identified.

Throughout the audit we work with you to consider the significant risks we identify, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control. We will report to you any significant deficiencies we identify.

In addition, as set out in the Audit Scotland Planning Guidance 2022/23 ,we are required to:

- provide information on fraud cases to Audit Scotland on a quarterly basis
- communicate emerging issues to Audit Scotland, and
- contribute to the National Fraud Initiative report

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the Audit Scotland Planning Guidance for 2022/23) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Scottish Forestry, we will report to the Auditor General as required by Audit Scotland.

IT audit strategy

ISA (UK) 315 (Revised July 2020): Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and its Environment' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on Scottish Forestry was the year ended 31 March 2023.

We are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). The revised requirements in ISA (UK) 315 (Revised July 2020) include:

Key changes

- An emphasis has been added on the need for auditors to not bias their work toward obtaining corroborative evidence or excluding evidence that is contradictory.
- The concept of 'inherent risk factors' has been introduced to assist the auditor in identifying events or conditions that may affect the susceptibility of assertions about classes of transactions, account balances or disclosures to misstatement.
- A new concept of significant classes of transactions, account balances or disclosures refers to those classes for which there are assertions with an identified risk of material misstatement (referred to as relevant assertions).
- A new concept of spectrum of inherent risk applies to the extent to which inherent risk varies.
- Significant risk relates to an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the affect of inherent risk factors on the combination of the likelihood of a misstatement and the magnitude.
- A requirement for auditors to understand the entity's use of IT in its business, the related risks and the system of internal control addressing such risks. (Guidance is being provided from Audit Scotland's Digital Auditing team to assist auditors in this regard).

During our audit we will complete an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system this assessment may focus on evaluating key risk areas (a 'streamlined assessment') or be more in depth (a 'detailed assessment').

IT audit strategy (continued)

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

| IT system | Audit area | Planned level IT audit assessment |
|--------------|---------------------|-----------------------------------|
| E-Financials | Financial reporting | • ITGC Assessment |
| Casebook | Grant Accruals | • ITGC assessment |
| RP&S | Grant Accruals | • ITGC assessment |

Our work will also include a review of Scottish Forestry cyber security controls.

On 4 August 2022, One Advanced (the supplier of eFinancials) was hit by a ransomware attack. They provide outsourced hosting services to a number of audited bodies. This issue impact on both financial and non-financial systems. We are currently making inquiries as to whether Scottish Forestry was affected by this event. Our inquiries include:

- whether Scottish Forestry was affected;
- assess the impact including been data breaches, either through unauthorised access or exfiltration; and
- actions that have been taken.

We will reassess our IT audit procedures, if required, in response to this risk.

Right of Use Assets - IFRS 16 implementation

IFRS 16 was implemented by Scottish central government bodies from 1 April 2022. This Accounting Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Introduction

Following the previous deferrals of IFRS 16 Leases *in the public sector*, Scottish Government has worked with central government bodies in Scotland in the implementation of this new accounting standard. It came into force for Scottish central government bodies on 1 April 2022.

IFRS 16 updates the definition of a lease to “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration”.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to a number of exemptions, as set out below.)

Key points that **Scottish Forestry** will need to consider in their financial statements in 2022/23 include:

- The need to recognise the cumulative effects of initially applying IFRS 16 on 1 April 2022 as an adjustment to the opening balances of taxpayers' equity. (Prior year comparators do not need to be restated).
- The need to recognise the right-of-use asset for leases previously classified as operating leases at an amount equal to the outstanding lease liability.
- No adjustments are needed for leases for which the underlying asset is of low value (less than £5,000 new) or where the lease term is less than 12 months.

- Assets where there is no, or a below market rate, peppercorn lease premium should be recognised as a right-of-use asset measured at current value in existing use or fair value as appropriate. Any difference between this and the lease liability will be recognised as part of the adjustment to the opening balances of taxpayers' equity.

Scottish Forestry's systems and processes

Where relevant, central government bodies will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures, we have made inquiries to management via the 'Informing the Risk Assessment' document and this has been shared with Audit and Assurance Committee to confirm accuracy.

Future auditing developments

There are changes to the following ISAs (UK) which will impact on our central government audits for the first time in future years.

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2022.:

- ISQM (UK) 2 (Issued July 2021) ‘Engagement Quality Reviews’
- ISA (UK) 220 (Revised July 2021) ‘Quality Management for an Audit of Financial Statements’

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2023.

A summary of the impact of the key changes on various aspects of the audit is included below:

| Area of change | Impact of changes |
|---|---|
| Quality control | <ul style="list-style-type: none"> • ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer (EQR) and the EQRs responsibilities relating to the performance and documentation of an engagement quality review. • The objective of the firm, through appointing an EQR, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon. • The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and applicable legal and regulatory requirements; and the auditor's report issued is appropriate in the circumstances. |
| Direction, supervision and review of the engagement | <ul style="list-style-type: none"> • Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures. |
| Documentation | <ul style="list-style-type: none"> • The amendment to these auditing standards will result in additional documentation requirements to demonstrate how these requirements of these revised standards have been addressed. |



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