

Forestry and Land Scotland

2021/22 Annual Audit Report



 AUDIT SCOTLAND

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

September 2022

Contents

Key messages	3
Introduction	5
1. Audit of 2021/22 annual report and accounts	8
2. Financial management	19
3. Financial sustainability	23
4. Governance and transparency	27
5. Value for money	30
Appendix 1. Action plan 2021/22	33
Appendix 2. Summary of 2021/22 national performance reports and briefing papers	38

Key messages

2021/22 annual report and accounts

- 1 The financial statements of Forestry and Land Scotland give a true and fair view of the financial position and the net income for the year. Our audit opinions on the annual report and accounts are unmodified.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 3 The annual report and accounts is consistent with the financial statements and has been prepared in accordance with legal requirements.

Financial management

- 4 Forestry and Land Scotland operated within its budget in 2021/22 and effective financial management arrangements are in place with regular budget monitoring reports provided to the Executive Team.
- 5 There were some control weaknesses identified in the operation of internal controls during 2021/22. These included a need to strengthen controls over user access rights, authorisation of journal entries and authorisation of invoices.

Financial sustainability

- 6 Although work is progressing, Forestry and Land Scotland has yet to finalise a longer-term financial strategy, supported by clear and detailed financial plans.
- 7 Significant cash reserves help Forestry and Land Scotland to manage financial uncertainty and service long-term needs. These have increased significantly in year. Plans for the use of reserves are regularly reported to the Executive Team.

Governance and transparency

- 8 The Strategic Board has not met since December 2021 with meetings cancelled until December 2022. This restricts the opportunity for formal advice and constructive challenge from non-executive advisors in line with On Board guidance. The Audit and Risk Committee and Executive Team continued to meet in line with expected timescales.

- 9** Deficiencies in record keeping and publication of minutes have also undermined transparency over the nature and extent of Strategic Board considerations.
- 10** A review of governance arrangements is currently under way. Any new arrangements should be monitored carefully to ensure that they are delivering the intended benefits.

Value for money

- 11** Forestry and Land Scotland has appropriate arrangements in place to help achieve and demonstrate best value.
- 12** Performance monitoring has continued throughout 2021/22. Reported performance was mixed, with 8 out of 15 KPI targets met in year.

Introduction

1. This report summarises the findings from our 2021/22 audit of Forestry and Land Scotland.
2. The scope of our audit was set out in our Annual Audit Plan presented to the 24 March 2022 meeting of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of Forestry and Land Scotland'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 2021/22 have been:
 - an audit of the Forestry and Land Scotland's 2021/22 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - a review of Forestry and Land Scotland's key financial systems
 - consideration of the four audit dimensions.
4. The global coronavirus pandemic has continued to have an impact on activities of Forestry and Land Scotland during 2021/22, including the ceasing of non-essential outdoor work and the closing of offices and sites. This work is now restarting and there has been a significant increase in visitors to Forestry and Land Scotland's land and forests. No risks related to the pandemic were included in our AAP, and subsequently no change to our planned audit work was required.

Adding value through the audit

5. We add value to the body 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 2](#)) and good practice guides
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

6. Forestry and Land Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from the Scottish Ministers.

7. Also, Forestry and Land Scotland is responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

8. 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.

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

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

Auditor Independence

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

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2021/22 notional audit fee of £101,620 as set out in our 2021/22 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

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

Audit appointment from 2022/23

15. The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round. For Forestry and Land Scotland this has been a three-year appointment following the devolution of forestry in Scotland.

16. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23, Grant Thornton UK LLP will be the appointed auditor for Forestry and Land Scotland. We are working closely with the new auditors to ensure a well-managed transition.

17. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

18. We would like to thank Strategic Board members, Audit and Risk Committee members, Executive Directors, and other staff, particularly those in finance for their co-operation and assistance over the last three years.

1. Audit of 2021/22 annual report and accounts

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

Main judgements

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

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

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

Our audit opinions on the annual report and accounts are unmodified

19. The Audit and Risk Committee agreed on 28 September 2022 that the annual report and accounts for the year ended 31 March 2022 should be passed to the Accountable Officer for signing. The Accountable Officer then approved the annual report and accounts on 28 September 2022. 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 audit report and accounts were submitted in line with our agreed audit timetable

20. The unaudited annual report and accounts were received in line with our agreed audit timetable on 9 June 2022. We are pleased to note that the unaudited annual report and accounts and supporting working papers were of a

good standard. A new finance team was in place during 2021/22. They provided good support to the audit team and the process ran smoothly.

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

Overall materiality is £48.2million

22. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#). Materiality has been revised on receipt of the annual report and accounts to reflect the increase in valuation of biological assets, forest estate and land and has had no impact on the audit approach.

Exhibit 1 Quantitative materiality values

Materiality level	Amount
Overall materiality: set at 1% of the total net book value of biological assets, land and the forest estate for the year ended 31 March 2022	£48.2 million
Performance materiality	
<ul style="list-style-type: none"> Biological assets, land and the forest estate: we have calculated performance materiality at 60% of overall materiality 	£28.9 million
<ul style="list-style-type: none"> Other assets, liabilities, income and expenditure: we have calculated performance materiality as 75% of 2% of gross income in the Statement of Comprehensive Net Expenditure. 	£1.9 million
Reporting threshold: We are required to report to those charged with governance on all adjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of overall materiality, capped at £100,000.	£100,000

Source: Forestry and Land Scotland Annual Report and Accounts 2021/22, Audit Scotland.

23. In determining performance materiality, we considered the following factors:

- our understanding of Forestry and Land Scotland
- the nature and extent of misstatement identified in previous years
- issues identified through our risk assessment processes.

24. The overall scope of the audit was planned to incorporate the significant assessed risks of material misstatement included within [Exhibit 3](#).

We have significant findings to report on the annual report and accounts

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have reported several issues from the work done on the identified risks of material misstatement. These relate to accounting estimates and judgements and are included in the action plan at [Appendix 1](#).

26. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Forest estate and land: other minor land</p> <p>Other minor land is made up of three categories including plantable land. The database used for plantable land was incorrectly referencing the £/value per hectare for unplantable land.</p> <p>Forestry and Land Scotland acknowledge that this resulted from moving information from the sub compartment database into an Access database which caused a formula issue.</p> <p>This resulted in plantable land being understated by £4.1 million in the first draft of the accounts.</p>	<p>Calculations have been corrected and the financial statements amended. The value of land has increased by £4.1 million in the Statement of Financial Position, and a corresponding increase in the revaluation reserve.</p> <p>Testing of other land uses was satisfactory.</p> <p>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p>
<p>2. Forest estate and land valuation – leasehold adjustment</p> <p>Areas of land held under long leasehold agreements are included within the year-end valuation. The data used to value the land in the first draft of the accounts did not include the areas of land under long leases, but included the areas held under short-term leases in error.</p> <p>This was due to an incorrect parameter selected from the Sub Compartment Database. The net correction required was for £28.8 million.</p>	<p>This has been amended in the financial statements and has increased forest estate and land by £23.5 million and biological assets by £5.3 million in the Statement of Financial Position and biological assets, and corresponding increases in the revaluation reserves</p> <p>Testing in other areas was satisfactory and no further testing required.</p> <p>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p>
<p>3. Remuneration report</p> <p>From our work we identified that a number of corrections were required to the Remuneration and Staff Report, the content of which is material by nature. This included amendments to the remuneration bandings of senior management</p>	<p>All misstatements identified have been amended in the Remuneration and Staff Report, which includes salary disclosures and the new fair pay requirements. Senior management should ensure that there is an effective quality assurance process for reviewing</p>

Issue	Resolution
<p>within Forestry and Land Scotland, and changes to the Fair Pay Disclosure.</p>	<p>the remuneration report given its high profile in the annual report and accounts</p> <p>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p>
<p>4. Valuation of biological assets and the forest estate</p> <p>The statement of financial position records biological assets and the forest estate with a value of £4,820 million at 31 March 2022 (£4,560 million at 31 March 2021). This is an increase of £260 million from 2020/21.</p> <p>The fair values of these assets are based on market information and, therefore, subject to the volatility of market conditions.</p> <p>Due to this volatility, there is an inherent risk over these valuations, and management will need to continue to review the market performance and associated impact of this on the asset valuations.</p> <p>The professional valuer also highlighted the importance of keeping these valuations under regular review due to market volatility.</p>	<p>We have reviewed the calculations underpinning the valuations, and substantively tested the application of valuation information provided by the professional valuer.</p> <p>We reviewed correspondence between management and the valuer and liaised directly with the valuer as part of our audit.</p> <p>We concluded that the valuations included in the annual report and accounts are a fair reflection of the asset values at 31 March 2022.</p> <p>We have requested and received assurances from the Accountable Officer in the ISA 580 letter of representation that the carrying value of these assets in the financial statements has been appropriately classified and is reflective of their fair value.</p>
<p>5. Government Grant</p> <p>In response to our queries on movements, year on year, in the Statement of Net Comprehensive Expenditure, finance staff identified that government grant funding had been incorrectly recorded as operating income.</p> <ul style="list-style-type: none"> • Peatland restoration funding £2.59 million • Woodland creation £0.19 million • Apprenticeship funding £1.05 million <p>Overall income was overstated, and government grant funding was understated by £3.83 million.</p>	<p>We reviewed the supporting correspondence from the Scottish Government and confirmed the nature of these grants. This reflects a classification error on the face of the draft Statement of Comprehensive Expenditure.</p> <p>These have been adjusted, ensuring government grant funding is being treated consistently. This did not impact on the income reported in the budget reporting in the performance report.</p>
<p>6. Carbon capture receipts</p> <p>Carbon capture receipts of £1.47 million had been incorrectly recognised as income in 2021/22. These relate to an agreement with a third party to provide Forestry and Land Scotland with funding for the creation of woodland and peatland restoration in exchange for carbon credits (see paragraph 41). As the agreed work is yet to be undertaken, this income should have been</p>	<p>Management has not adjusted for this change on the grounds of materiality. This means income and payables are both understated by £1.47 million.</p> <p>We are satisfied that we have identified the entirety of this misstatement.</p> <p>We have reported this as an unadjusted misstatement.</p>

Issue	Resolution
<p>deferred in line with the treatment of similar amounts previously received.</p> <p>As a result, income is overstated. These receipts were also incorrectly classified as a government grant.</p>	<p>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p>
<p>7. Income accruals – renewables</p> <p>Our 2020/21 audit revealed issues with the methodology applied by Forestry and Land Scotland to estimate the income due for the final period of the financial year in respect of renewable energy schemes.</p> <p>The methodology has been reviewed and updated for 2021/22. We identified that actual windfarm income has exceeded the amount accrued in the accounts by £1.15 million. This was largely due to the significant increase in energy prices in the latter part of 2021/22 which had not been reflected in the estimation approach.</p> <p>While this information was not available as at 31 March 2022, we considered this to be an adjusting event after the reporting period, in line with accounting standards.</p>	<p>We reviewed the revised estimation methodology used to determine the amount to be accrued in relation to income from windfarm leases. We recognise that the methodology has been reviewed and improved.</p> <p>Management have not adjusted the accrual to reflect residual invoices received before the accounts were authorised for issue. While the income accrued remains understated, we are content that the potential amounts involved are not material to our audit opinions. We have reported this an unadjusted misstatement.</p> <p>The increases in energy prices throughout 2022, and fluctuations in wind power contribute to this balance.</p> <p>We have requested and received assurances from the Accountable Officer in the ISA580 letter of representation that the estimated amounts of windfarm income accrued is reasonable based on the best available information when the accounts were authorised for issue.</p>

Source: Audit Scotland

27. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of management override of controls</p> <p>ISA (UK) 240 requires that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Assessed the design and implementation of controls over journal entry processing, tested journal entries focussing on areas of significant risk.</p> <p>Substantive tested income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of year-end payables and receivables.</p> <p>Reviewed accounting estimates and judgements.</p> <p>Evaluation of significant transactions out with the normal course of business</p>	<p>We did not identify any significant issues in our work on journals or accounting estimates. Our testing of accruals and prepayments did not identify any errors and our work on income and expenditure did not identify any significant transactions outside the normal course of business.</p> <p>Conclusion: No issues were identified that indicated management override of controls.</p>
<p>2. Risk of fraud over timber income</p> <p>As set out in ISA (UK) 240, there is a presumed risk of fraud in the recognition of income. Forestry and Land Scotland generate a material amount of income from commercial activities, in addition to the annual subsidy limit received from the Scottish Government. During 2020/21 income of approximately of £113 million was received from other sources, with £85 million (75%) of this from timber sales.</p> <p>The nature, extent and complexity of this income means that there is an inherent risk of fraud over the</p>	<p>Reviewed accounts receivable and sales recording package systems and associated key controls.</p> <p>Controls and substantive testing of timber income transactions, including focussed testing of timber contracts.</p> <p>Substantive cut-off testing of income transactions to ensure accounted for in the correct financial year.</p> <p>Reviewed arrangements in place to detect and prevent fraud, including the Timber Security standard operating procedures.</p>	<p>We did not identify and significant issues from our testing of controls over timber income/ receivables (including the sales recording package), and arrangements in place to detect and prevent fraud.</p> <p>Conclusion: No issues were identified that indicated fraud over timber income.</p>

Audit risk	Assurance procedure	Results and conclusions
completeness of timber income.		
<p>3. Accounting estimation and judgement</p> <p>There is a significant degree of subjectivity involved in the measurement and valuation of biological assets, land and the forest estate (2020/21: £4,056 million).</p> <p>The specialised nature and judgements involved in the valuation of these assets, and the application of valuation information when determining the year-end asset values represents an inherent risk of material misstatement in the financial statements.</p>	<p>Reviewed the work of the professional valuer.</p> <p>Reviewed the process for applying the information provided by the professional valuer, including indexation where applied, and the subsequent accounting adjustments.</p> <p>Reviewed the appropriateness of accounting policies.</p> <p>Substantive testing of year-end balances.</p>	<p>We reviewed the work of the professional valuer and discussed the valuation exercise with both management and the valuer.</p> <p>The application of valuation information in the preparation of the year-end asset valuations was substantively tested. We identified the issues noted in Exhibit 2 but concluded these were isolated and did not stem from the valuation process.</p> <p>The accounting policies were reviewed as part of our year-end audit, and no issues identified</p> <p>Substantive testing of year-end balances was undertaken with no significant issues identified.</p> <p>Conclusion: Satisfactory regarding the estimation and judgement in valuations.</p>

Identified misstatements of £32.9 million were adjusted in the accounts

28. Total misstatements identified were £32.9 million. These relates to other minor land £4.1 million, leasehold land £28.8 million (both detailed in [Exhibit 2](#)).

29. These misstatements were greater than our performance materiality level for biological assets, land and the forest estate. We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. We did not need to review our audit approach.

30. Adjustments made in the audited accounts increased the net asset position in the Statement of Financial Position (SoFP) of £32.9 million and a corresponding increase in the revaluation reserve £27.6 million in the SoFP and £5.3 million increase in the gain on revaluation of biological assets in the Statement of Comprehensive Net Expenditure (SoCNE).

31. We identified a small number of classification errors in the accounts. As noted in [Exhibit 2](#), £3.8 million of government grants were classified in income

and have now been reclassified as government grant. This had no impact on the overall net income for the year in the SoCNE.

32. We also noted that part of an accrual (long-term bond), £0.63 million had not been excluded from long term payables. The overall (short and long term) payables figure is correct, and we noted that this stemmed from information in the accounts not fully reflecting the working paper. This had no overall impact on the net assets in the SoFP.

33. Two misstatements, totalling £2.62 million were identified that have not been adjusted by management in the accounts:

- Renewables income: This reflects the difference between estimated accrued income at year end and the actual income from renewables which has become known after year end. Management have considered this and decided not to make this change. This would have increased operating income by £1.15 million in the SoCNE and increased net assets in the SoFP by the same amount.
- Deferred income: This reflects income for carbon capture activities which should have been deferred but was included in error as a government grant. Management have considered this and decided not to make this change. This would have decreased grant funding and net income by £1.47 million in the SoCNE and increased net liabilities in the SoFP by the same amount. This has also not been adjusted in the performance report table of grant funding.

34. The net effect of the two unadjusted misstatements is that income in the SoCNE is overstated by £0.32 million.

35. 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. The gross sum of the unadjusted misstatements is below our overall materiality and has not affected our opinion.

Our audit identified a number of other findings

Camping in the Forest

36. Camping in the Forest LLP (CiTF) was a limited liability partnership in which Forestry and Land Scotland had a share since 2012. On 28 February 2022, there was a restructuring of the arrangements and Forestry and Land Scotland, along with Forestry England, purchased the Camping and Caravanning Club's interest in CiTF. £1.9 million was paid by Forestry and Land Scotland. In the draft accounts, Forestry and Land Scotland had correctly included this in the accounts under equity accounting. However, it was classified as an associate. After the audit review of the documentation, it was agreed that it would be accounted for as a joint venture due to joint voting rights and participation in key management decisions. This means the equity accounting method remains correct and the classification reflects the memorandum of understanding.

Non-current assets

37. As reported in our 2020/21 and 2019/20 annual audit reports, a number of historic practices and processes established by Forestry and Land Scotland's predecessor organisation, Forest Enterprise Scotland, continue to be applied. It is important that Forestry and Land Scotland continues to review the suitability of accounting practices and processes applied to its own circumstances.

38. We acknowledge that management have previously reviewed the valuation methodology for biological assets and the forest estate, and the accounting treatment of vehicles, machinery and equipment and office machinery. Whilst these do not have a material effect on the annual report and accounts, additional areas for management's attention include:

- **Infrastructure assets:** expenditure on infrastructure assets is not recognised in the value of non-current assets in the statement of financial position. A review of this area was recommended in the prior year, and agreed with management that this would take place during 2022/23.
- **Intangible assets:** IAS 38 Intangible Assets states that an intangible asset should be recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the costs can be measured reliably. All costs incurred on intangible assets such as software packages and licences are expensed to the statement of comprehensive net expenditure. It is important that a review of the accounting for intangible assets is progressed, as investment in developing the new Management Information Platform continues increasing the amounts involved.
- **Fellings:** The value of felled timber (2021/22: £70.2 million) is calculated based on a legacy methodology, using data held in the Sales Recording Package (SRP) system, which records timber sales. This is deducted from the carrying value of biological assets and recognised as an expense to reflect the timber felled and sold throughout the year. Management should review the calculation basis to ensure the value of felled timber draws appropriately on the data available from SRP.

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

Recommendation 2

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

As the Management Information Platform develops, consideration should be given to introducing an asset register to support reporting and accounting for the wide range of assets held by Forestry and Land Scotland.

Material valuation uncertainty relating to Covid-19

40. We noted from our work, that all material valuation uncertainty clauses have been removed by the valuers. These had been introduced in 2019/20 to highlight the impact of Covid-19 on global markets and indicated that less certainty and a higher degree of caution should be attached to the valuation than would normally be the case. RICS (Royal Institution of Chartered Surveyors) had stated on their website that this was no longer required.

Carbon units

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

Mineral royalties review

42. A review of the arrangements for accounting for mineral royalties, managed out with core finance functions, has not taken place in 2021/22 as planned due to pressures on resources. We would recommend this is carried out in 2022/23.

Recommendation 3

A review of the arrangements in place for accounting for income streams managed out with the core finance function is carried out. Arrangements should be in place to ensure that the income reflected in the financial statements is complete and accurate as revenue sources broaden.

Data analytics were used in audit sampling

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

44. As part of our work, we obtained detailed transaction downloads from the general ledger and SRP. The ledger data was used for substantive testing during the financial statements audit and was subjected to automated routines to help identify unusual or risky transactions for further investigation. The SRP

data was compared to the ledger data to provide assurance over the completeness and accuracy of the accounting records and was used to support our substantive testing of timber income. The procedures carried out provided increased assurance over the completeness of the information in the accounts, and the allocation to account areas.

Some progress was made on prior year recommendations

45. Forestry and Land Scotland has made some progress in implementing for prior year recommendations. We particularly note the improvements in work relating to the review of the methodology to calculate the year end windfarm accruals. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Whole of Government Accounts 2020/21

46. In accordance with the WGA (Whole of Government Accounts) guidance we completed the required assurance statement for the delayed 2020/21 WGA and submitted to the National Audit Office (NAO) by the revised deadline of 31 August 2022.

2. Financial management

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

Main judgements

Forestry and Land Scotland operated within its budget in 2021/22 and effective financial management arrangements are in place with regular budget monitoring reports provided to the Executive Team.

There were some control weaknesses identified in the operation of internal controls during 2021/22. These included a need to strengthen controls over user access rights, authorisation of journal entries and authorisation of invoices.

Forestry and Land Scotland operated within its budget in 2021/22

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

48. Regular budget monitoring reports are prepared by Forestry and Land Scotland and discussed by the Executive Team. Forestry and Land Scotland's original budget was £109.1 million expenditure compared to £108.7 million income, so a net expenditure budget of £0.4 million. The management outturn position reported income of £122.2 million and expenditure of £120.6 million, therefore income exceeding expenditure by £1.6 million (a trading surplus). Income was in excess of budget by £13.1 million. This was primarily due to impact of the global timber supply shortages sustaining a high unit price for timber.

49. These figures differ from the balances reported in the SoCNE because the management accounts do not include all the same figures required under International Financial Reporting Standards (IFRS). This includes values for felled timber included as expenditure in the SoCNE but not in management accounts, and some elements of capital expenditure included in management accounts but not in the SoCNE. These differences are detailed in the performance report of the annual report and accounts.

Forestry and Land Scotland also receive funding from the Scottish Government

50. Forestry and Land Scotland also receive annual funding from the Scottish Government. During 2021/22, they received a total of £43.69 million. This was the annual subsidy of £15.2 million plus restricted funding for specific pieces of

work including £14.5 million to support the development of Newton Nursery, £9.6 million to support woodland and peatland creation. Of this £29.0 million was recognised in year in the SoCNE with the remainder deferred. This reflects the fact that funding is provided for specific projects which span multiple years, including Newton Nursery development.

The financial statements record net assets of £5.03 billion

51. The statement of financial position summarises what is owned and owed by Forestry and Land Scotland. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

52. The financial statements record net assets of £5.03 billion, an increase of £828 million from 31 March 2021. This is largely attributable to the impact of the revaluation of non-current assets.

Budget processes were appropriate

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

54. As noted previously, the current budget monitoring reports do not give a full picture of income received and exclude the annual subsidy limit from the Scottish Government when reporting income. The expenditure funded by the subsidy is reflected in the reporting of expenditure against budget. As noted in [Exhibit 2](#), there were some classification adjustments between income and government grants on the SoCNE as part of the audit process, therefore inclusion of the subsidy in monitoring reports may be appropriate going forward.

Financial systems of internal control are operating effectively

55. Our management letter presented to the Audit and Risk Committee on 5 July 2022 detailed our findings from the review of the main systems of internal control. The findings outlined in this report informed our year-end audit testing and additional testing was carried out where required. These included a need to strengthen user access rights, authorisation of journal entries, authorisation of invoices and segregation of duties (accounts receivable).

56. Overall, we concluded that while there were weaknesses identified in the system of internal control, as noted above, no significant internal control weaknesses were identified during the audit which could affect Forestry and Land Scotland's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements. Our 2020/21 audit identified control weakness surrounding changes in supplier bank account details. We tested 30 changes in 2021/22 and no issues were identified, and we note the improvements made by Forestry and Land Scotland in year.

We considered the work of internal audit

57. Forestry and Land Scotland’s internal audit function is provided by the Scottish Government’s Directorate of Internal Audit and Assurance. The Public Sector Internal Audit Standards require that an annual internal audit opinion and report that can be used to inform the annual governance statement is provided. The opinion provided by internal audit in 2021/22 is that of ‘reasonable assurance,’ which is defined as “some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place, but not of a significant nature.”

58. We reviewed the body’s internal audit function in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) and determined that we could place reliance on the work of internal audit. We did not plan to place formal reliance on the work of internal audit for our financial statements’ responsibilities. We considered the findings of internal audit across a range of work including self-billing, organisational change management, payroll and IT cyber security.

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

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

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

61. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. [Exhibit 4](#) summarises the result for Forestry and Land Scotland.

Exhibit 4 NFI activity



1,460

Matches



11

Classified as high and
medium fraud risks



1,459

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

62. Two errors totalling £4k were identified. One case continues to be investigated.

63. Forestry and Land Scotland's work on the National Fraud Initiative was initially slow and not completed by the September 2021 'first deadline'. Data matching investigations started in February 2022 and work progressed quickly reflecting an overall commitment to NFI. The results of the exercise were reported to the Audit and Risk Committee in March 2022 and the 'second deadline' of March 2022 was achieved.

3. Financial sustainability

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

Main judgements

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

Significant cash reserves help Forestry and Land Scotland to manage financial uncertainty and service long-term needs. These have increased significantly in year. Plans for the use of reserves are regularly reported to the Executive Team.

There has been some progress to support longer term financial planning, but further work is required

64. [Exhibit 5](#) sets out the wider code risk we identified in our 2021/22 audit, our assurance procedures and the results and conclusions from our work. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

Exhibit 5

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

Audit risk	Assurance procedure	Results and conclusions
<p>Financial sustainability – longer-term financial planning</p> <p>Forestry and Land Scotland fund a significant amount of expenditure by income generating activities. A significant proportion of this is from timber sales. Whilst timber prices have been rising steadily in previous years, the longer-term impacts of the Covid-19 pandemic and EU exit are</p>	<p>Review of budgetary control arrangements.</p> <p>Monitor progress made towards developing a longer-term financial strategy, including ongoing discussions with management.</p> <p>Review of the year-end cash reserve balances.</p>	<p>We noted that the 2022/23 business plan including financial details was issued on 1 April 2022.</p> <p>Each cost centre is preparing a first iteration of a business and financial plan for 5 years from 2023/24 using 2022/23 as a base year. These will form directorate plans and then will be combined into a longer-term business and financial plan.</p> <p>Cash reserve balances have increased in year. Plans for</p>

Audit risk	Assurance procedure	Results and conclusions
<p>uncertain and may lead to market volatility.</p> <p>A longer-term financial plan has not yet been finalised by the agency. There is a risk that fluctuations in budgeted income and expenditure or Scottish Government funding cannot be effectively managed.</p>		<p>these are detailed and reported regularly to the Executive Team.</p> <p>Conclusion: Work is ongoing and the longer-term plan requires to be completed.</p> <p>Appendix 1 Recommendation 4</p>

Work on longer-term financial planning is progressing

65. As noted in [Exhibit 5](#) above, and reported in previous annual audit reports, a longer-term financial plan is not yet in place for Forestry and Land Scotland.

66. Work has been progressing to develop a long-term sustainable business model for the agency, to allow for flexibility and resilience. This forms an integral part of the transformation of Forestry and Land Scotland, where consideration is being given on how the business is managed and its outcomes are delivered. A key area of focus is on improving business and financial planning processes, moving towards a five-year plan, as opposed to an annual financial planning cycle. This aims to create a sustainable organisation which is financially secure and can adapt to changing economic and climate challenges

67. The majority of the income received by Forestry and Land Scotland is receipts from commercial activities. As such, this income is contingent on market conditions and demand for services supplied. The volatility in market conditions, double-digit inflation and the unpredictability of the income generated presents risks to the financial sustainability of the agency that will require to be managed.

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

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

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

prices, and flat or reducing annual subsidy limits should be included as part of the financial planning.

Recommendation 4

The development of a longer-term financial strategy should be progressed. A financial strategy should be prepared, supported by clear and detailed financial plans and scenario planning to support the financial sustainability of the agency.

Cash balances at 31 March 2022 were £115.1 million

71. For the purposes of its accounts, Forestry and Land Scotland is classified by the Office of National Statistics as a public corporation. This classification is based on the nature of activity within the business and the high proportion of business trading. The classification enables Forestry and Land Scotland, in line with the reserves policy, set out in its framework document, to build and retain financial reserves across financial years to manage uncertainty, service long-term needs and deliver on outcomes.

72. The statement of financial position at 31 March 2022 records cash balances of £115.1 million (2020/21: £84.8 million). This increase reflects the continuing increase in income receipts as a result of strong market conditions.

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

74. As disclosed in the annual report and accounts, Forestry and Land Scotland have identified restricted reserves of £47.4 million which is mainly to support the development of Newton Nursery and to support the strategic asset acquisition fund and carbon projects. There are also earmarked reserves of £53.5 million which are to support protecting and enhancing the national forest estate and land and projects to support the sustainability of Forestry and Land Scotland. The remainder are held for liquidity purposes.

75. The reserves balance has increased significantly over the last few years. The reserved and earmarked balances are regularly reported to the Executive team. Work to deliver the planned projects over the next couple of years is expected to lead to a reduction in these reserves.

Budgeted net expenditure for 2022/23 is £8.8 million

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

77. Based on total managed expenditure, the budget for 2022/23 is expenditure of £130.4 million and income of £121.6 million, resulting in budgeted net expenditure of £8.8 million (2021/22: £0.4 million net expenditure). This relates to key financial management measures which are reported in the performance

report of the annual report and accounts. This excludes factors including the value of felled timber and gains on the revaluation of biological assets which are also included in the SoCNE.

78. The annual subsidy for 2022/22, as set out in the Scottish Government's 2022/23 budget, is £27.2 million (£16.7 million resource and £10.5 million capital). This is more than the £15.2 million annual subsidy limit of 2021/22, but this was enhanced during 2021/22 with £28.49 million of additional funding for specific projects.

79. The volatility of the timber market and the impact on income generation continues to present challenges in maintaining the financial sustainability of Forestry and Land Scotland. Careful management of finances and cash balances is required to manage the unpredictability of the financial pressures faced.

4. Governance and transparency

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

Main judgements

The Strategic Board has not met since December 2021 with meetings cancelled until December 2022. This restricts the opportunity for formal advice and constructive challenge from non-executive advisors in line with On Board guidance. The Audit and Risk Committee and Executive Team continued to meet in line with expected timescales.

Deficiencies in record keeping and publication of minutes have also undermined transparency over the nature and extent of Strategic Board considerations.

A review of governance arrangements is currently under way. Any new arrangements should be monitored carefully to ensure that they are delivering the intended benefits.

The governance arrangements and controls operating during 2021/22 supported effective working

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

81. The Strategic Board is comprised of executive directors and non-executive advisors. The role of this Board is to support, advise and provide constructive challenge to the Chief Executive on matters such as strategic vision, the effectiveness of risk management arrangements, governance and internal control. This should support the Chief Executive in reaching robust and well-informed decisions.

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

83. The role of the Audit and Risk Committee is to provide advice and constructive challenge to the Chief Executive and to provide support in relation to his responsibilities regarding risk management, control, governance, and associated assurance to support year-end accountability. From our attendance

at Audit and Risk Committee meetings, we conclude that there is appropriate scrutiny from members.

A review of directorate responsibilities took place in year as part of a wider review of governance arrangements

84. A review of directorate responsibilities was taken out in early 2022 and this led to the creation of 4 new directorates from 1 February 2022. The aim of this is to better align the directorates to support the longer-term performance and sustainability of Forestry and Land Scotland. We also noted that the Executive team has been renamed the Management Board in the July 2022 meeting minutes. This is to support the Board in focusing more on strategic decision making.

85. As Forestry and Land Scotland enters its fourth year, it is reviewing governance arrangements, with the aim being they remain fit for purpose and are delivering the arrangements needed for the organisation. Any new arrangements should be monitored carefully to ensure that they are delivering the projected benefits which were intended from these changes.

Strategic Board meetings have not taken place so far during 2022

86. Strategic Board meetings took place April, June, September and December 2021. Minutes for June and September were not taken due to illness and December minutes remain in draft. The meetings scheduled in 2022, for February, June and September did not go ahead as planned and the next meeting is not planned until December 2022. When the next meeting takes place, this will be a year since the last meeting. We note that the Chief Executive has continued to engage with non-executive advisors during this period. Nonetheless there will have been no formal meetings of the Board for a year, and no confirmed minutes of the meetings held for a further year.

87. An internal review of governance arrangements is ongoing. This may in time result in changes to the remit of the Strategic Board, and in a refreshed Forestry and Land Scotland Framework document. Nevertheless, in advance of any changes being implemented it is concerning that existing arrangements have not been operating as intended. This has limited the opportunity for formal advice and constructive challenge from non-executives for a prolonged period. Deficiencies in record keeping and publication of minutes also undermine transparency over the nature and extent of Strategic Board considerations.

88. The Audit and Risk Committee's term of reference states that a "minimum of three members of the Committee will be present for the meeting to be deemed quorate". A non-executive advisor's term ended on 31 March 2022 and has currently not yet been replaced. Special approval and arrangements were put in place (a derogation from the Scottish Government sponsor department) to ensure the July and September Audit and Risk Committees could still take place with two non-executive advisors present. We note that the recruitment process for new non-executives is progressing, and it is hoped that additional non-executives will be in place in autumn 2022. The plan is to increase numbers to five to increase capacity and complement the skills of the current non-executive advisors.

Recommendation 5

Forestry and Land Scotland should make arrangements to ensure that non-executives are able to provide an appropriate level of constructive challenge and support, to support the Accountable Officer in line with the Scottish Government's On Board guidance.

Recommendation 6

Forestry and Land Scotland should ensure that minutes of all relevant meetings are recorded, approved and published.

89. As in previous years the Forestry and Land Scotland internal control checklist is based on the Scottish Government's model checklist with some changes made to suit local needs, for example, additional information on health and safety, which is good practice. This has meant that when the model checklist identifies new areas for inclusion, these have not always been included in the Forestry and Land Scotland checklists. This includes specific information on asset registers/ owners and controls to support freedom of information enquiries. An annual check should be made to the model checklist to ensure that all areas are considered for inclusion.

Openness and transparency could be further enhanced

90. 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.

91. Executive Team, Strategic Board and Audit and Risk Committee minutes are all publicly available on the Forestry and Land Scotland website. As noted above there have been no minutes for the Strategic Board since April 2021. As highlighted in previous annual audit reports, openness and transparency could be further improved by extending the availability of meeting papers to the public, with confidential or commercially sensitive information withdrawn or redacted as appropriate.

5. Value for money

Using resources effectively and continually improving services

Main judgements

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

Performance monitoring has continued throughout 2021/22. Reported performance was mixed, with 8 out of 15 KPI targets met in year.

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

92. [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.

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

94. Since the establishment of Forestry and Land Scotland on 1 April 2019, work has been undertaken by management to enable the agency to assess the progress and evidence against each of the themes set out in the SPFM's guidance on best value (vision and leadership, effective partnerships, governance, and accountability, use of resources and performance management). Our 2020/21 annual audit report noted that some improvement actions had been identified from this review, including better alignment of the business planning and financial planning processes and better reporting of the annual and corporate performance reports to stakeholders and the public.

95. Forestry and Land Scotland's Corporate Plan 2022-2025 was published in April 2022. The Corporate Plan is supported by annual Business Plans. The 2022/23 Annual Business Plan sets out compliance around the duty of Best Value as set out in the SPFM. The Business Plan includes key actions to ensure continuous improvements in performance, taking into account economy, efficiency and effectiveness, equal opportunities and sustainable development. The best value action plan will be continued in year with completion expected in quarter four of 2022/23.

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

Partnership working continued in 2021/22 and has been extended to 2025

97. A number of services are delivered by Forestry and Land Scotland on behalf of Scottish Forestry. These include financial ledger and payroll support, health, safety and wellbeing, and digital services. A service level agreement was agreed between the two agencies, following the devolution of forestry and this has recently been extended to 31 March 2025. This arrangement demonstrates partnership working and a contribution to best value within the public sector.

Forestry and Land Scotland were able to maintain service performance levels despite the pandemic

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

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

100. Fifteen KPIs were agreed, across the five corporate outcomes. Eight of these targets were achieved during the period. Reported performance levels are consistent with those in 2020/21. Areas where the target was missed include the volume of timber brought to the market, the area of woodland creation, and area of peatland with initial restoration action. These targets were not met due to the impact of Covid-19, environmental constraints and contractual issues. We noted the revised KPI relating to women/females in senior roles to support an inclusive organisation.

The performance report was of a good standard

101. In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of the Forestry and Land Scotland's performance report. The performance report should provide information on a body, its main objectives and the principal risks faced by Forestry and Land Scotland. Additionally, it should provide a fair, balanced and understandable analysis of performance as well as helping stakeholders understand the financial statements.

102. The performance report builds on improvements from 2020/21, including improved information on financial performance and future plans for the organisation which are included in the performance analysis section. This helps the reader better understand the activities that are the drivers from both income and expenditure at Forestry and Land Scotland. Going forward, Forestry and Land Scotland should look to tie in expenditure and income to the outcomes detailed in the corporate plan 2022-2025.

Forestry and Land Scotland has set out a route map to Net Zero

103. The Scottish Government is committed to tackling the impact of the Climate Emergency and the Biodiversity crisis. Plans have been set out to support a just transition to net zero greenhouse gas emissions by 2045 at the latest. Forestry and Land Scotland have a significant part to play in helping the Scottish Government achieve this target, by locking in significant amounts of carbon within trees, soils and peatland.

104. Forestry and Land Scotland's new Corporate Plan 2022-25 sets out the Route Map to Net Zero. This sets out the actions to be taken to achieve zero 'direct' business emissions by 2045 and the targeting of reductions of those 'indirect' emissions generated by suppliers and contractors.

National performance audit reports

105. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2021/22 several reports were published which may be of direct interest to the body. These are outlined in [Appendix 2](#).

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

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Land valuations, remuneration report and carbon capture receipts</p> <p>We identified misstatements in minor land and land valuations, which stemmed from an Access database issue.</p> <p>Remuneration report balances were misstated as incorrect reports were used to support figures in the draft annual report and accounts.</p> <p>There was a misstatement relating to the misclassification of carbon capture receipts as grant funding. It should have been treated as deferred income.</p> <p>Risk: the financial statements or remuneration report are misstated and do not comply with the FReM.</p>	<p>Enhanced quality checks are introduced as part of the year end account annuals review process.</p> <p>Exhibit 3</p>	<p>Plans have been put in place regarding a pre-year end review of balance sheet items including land valuations. This will now be extended to include other reporting such as the Remuneration Report and these will be completed before year end and then updated pre-audit.</p> <p>Tom Greenan 28th February 2023</p>
<p>2. Accounting for non-current assets</p> <p>The accounting treatment of infrastructure and intangible assets should be reviewed. The calculation of the value of felled timber should be reviewed to confirm that it remains accurately based. Accounting policies should be reviewed to ensure they</p>	<p>The accounting practices applied in the accounting for non-current assets should be reviewed to ensure they are appropriate to Forestry and Land Scotland. Particular attention should be given to infrastructure assets, intangible assets, and the calculation of the value of felled timber.</p>	<p>As part of an ongoing review of governance and the communication / online availability of these governance processes we will cover the valuation of assets and cost of goods sold.</p> <p>Tom Greenan 31st March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>reflect any changes to practice.</p> <p>Whilst we recognise that this is not material to the annual report and accounts, this was raised in our 2020/21 Annual Audit Report and note that a review is planned for 2022/23.</p> <p>Risk: There is a risk that the value of non-current assets is not fairly stated.</p>	<p>As the Management Information Platform develops, consideration should be given to introducing an asset register to support reporting and accounting for the wide range of assets held by Forestry and Land Scotland.</p> <p>Paragraph 37. -39</p>	
<p>3. Mineral royalties</p> <p>In 2020/21 audit testing identified income of £428,000 relating to 2019/20 that had not been recognised in the previous financial year. This income was accounted for in 2020/21 when received by Forestry and Land Scotland. A planned review in 2021/22 did not take place.</p> <p>Risk: There is a risk that income is not accounted for in the correct financial year</p>	<p>A review of the arrangements in place for accounting for income streams managed out with the core finance function is carried out. Arrangements should be in place to ensure that the income reflected in financial statements is complete and accurate as revenue sources broaden.</p> <p>Paragraph 42.</p>	<p>As per Recommendation 2 above we will review our accounting policies and procedures for the recognition of income and specifically Mineral Royalties before the end of FY22/23.</p> <p>Tom Greenan 31st March 2023</p>
<p>4. Longer-term financial planning</p> <p>Work continues to develop a sustainable business model, and this will include longer-term financial planning. However, a longer-term financial strategy, has yet to be finalised by Forestry and Land Scotland.</p> <p>Risk: There is a risk that economic pressures and fluctuations in budgeted income and expenditure cannot be effectively managed.</p>	<p>The development of a longer-term financial strategy should be progressed. A financial strategy should be prepared, supported by clear and detailed financial plans, and should clearly align with corporate plan outcomes to support the financial sustainability of the agency.</p> <p>Paragraph 65. -70</p>	<p>This is currently underway and the review of the First Iteration of the Five Year Business Plan is underway. We have also implemented improvements to scenario planning due to the volatility in timber prices and inflationary pressures. These will continue to be developed and refined on an ongoing basis.</p> <p>Tom Greenan 31st March 2023 / Ongoing</p>
<p>5. Strategic Board meetings</p>	<p>Forestry and Land Scotland should make arrangements to</p>	<p>As noted, a review of governance arrangements is</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>No Strategic Board meetings have taken place since December 2021 with the next meeting scheduled for December 2022, 12 months later.</p> <p>Risk: non-executives are not able to provide constructive challenge and support to the Accountable Officer.</p>	<p>ensure that non-executives are able to provide an appropriate level of constructive challenge and support, to support the Accountable Officer in line with the Scottish Government's On Board guidance.</p> <p>Paragraph 87. -88</p>	<p>currently underway and follows the implementation of the Corporate Structures Review and the introduction of the revised Directorates. The review is looking to enhance and strengthen the role of the Non-Executives.</p> <p>A recruitment campaign for three new Non-Executive Advisors is in its final stages with appointments expected before the 30 September 2022. This recruitment will see the total number of Non-Executives increase to five. Following appointment, the revised governance model for the Strategic Board will be agreed with the Non-Executives and subsequently implemented.</p> <p>Simon Hodgson & Michael Hymers</p> <p>31st December 2022</p>
<p>6. Strategic Board minutes</p> <p>Minutes of Strategic Board meetings are not available since April 2021.</p> <p>Risk: transparency is undermined because the nature and extent of consideration at Strategic Board meetings has not been documented.</p>	<p>Forestry and Land Scotland should ensure that minutes of all relevant meetings are recorded, approved and published.</p> <p>Paragraph 86. -88</p>	<p>Additional secretariat support has already been introduced, alongside a standby procedure to ensure that all future meetings will be appropriately recorded.</p> <p>Completed</p>

Follow-up of prior year 2020/21 Annual Audit Report recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. AAR 2020/21 Income accruals – renewables</p>	<p>The estimation methodology for windfarm accruals should be reviewed and revised and</p>	<p>The methodology has been reviewed and updated for 2021/22. Due to the</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Income due at financial yearend in relation to renewable energy schemes is estimated based on an established methodology. Audit testing identified that the actual income received during the year relating to windfarm leases in respect of 2019/20 exceeded the amount that had been estimated by approximately £3.1 million. We identified that based on amounts confirmed to date, accrued renewable income was understated by at least £824,000 at 31 March 2021. This has been reported as an uncorrected misstatement.</p> <p>Risk: There is a risk that the financial statements do not accurately reflect the income receivable from renewable energy schemes.</p>	<p>updated in advance of the preparation of the 2021/22 financial statements. This review should be extended to other renewable income accruals.</p>	<p>significant increase in energy prices in recent months, this has resulted in a difference between accrued and actual income of £1.15 million.</p> <p>Completed for 2021/22</p>
<p>2. AAR 2020/21 Income from mineral royalties</p> <p>Audit testing identified income of £428,000 relating to 2019/20 that had not been recognised in the previous financial year. This income was accounted for in 2020/21 when received by Forestry and Land Scotland.</p> <p>Risk: There is a risk that income is not accounted for in the correct financial year.</p>	<p>A review of the arrangements in place for accounting for income streams managed out with the core finance function is carried out. Arrangements should be in place to ensure that the income reflected in financial statements is complete and accurate.</p>	<p>Forestry and Land Scotland confirmed that the mineral royalties review has still to take place</p> <p>Refer to recommendation 3 above.</p> <p>Ongoing</p>
<p>3. AAR 2020/21 Accounting for non-current assets</p> <p>The accounting treatment of infrastructure and intangible assets should be reviewed. The calculation of the value of felled timber should be reviewed to confirm that it</p>	<p>The accounting practices applied in the accounting for non-current assets should be reviewed to ensure they are appropriate to Forestry and Land Scotland. Particular attention should be given to infrastructure assets,</p>	<p>Refer to recommendation 2 above.</p> <p>Ongoing</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>remains accurately based. Accounting policies should be reviewed to ensure they reflect any changes to practice.</p> <p>Risk: There is a risk that the value of non-current assets is not fairly stated.</p>	<p>intangible assets, and the value of felled timber.</p>	
<p>4. AAR 2020/21 Longer-term financial planning</p> <p>Work continues to develop a sustainable business model, and this will include longer-term financial planning. However, a longer-term financial strategy, has yet to be finalised by Forestry and Land Scotland.</p> <p>Risk: There is a risk that fluctuations in budgeted income and expenditure cannot be effectively managed.</p>	<p>The development of a longer-term financial strategy should be progressed. A financial strategy should be prepared, supported by clear and detailed financial plans, and should clearly align with corporate plan outcomes to support the financial sustainability of the agency</p>	<p>Refer to recommendation 4 above.</p> <p>Ongoing</p>
<p>5. Performance report</p> <p>The performance report could be improved by including more trend analysis, more details of future longer term sustainability plans and more clearly linking financial performance disclosures to achievements.</p> <p>Risk: There is a risk that the performance report does not fully communicate the performance of the organisation to stakeholders.</p>	<p>The performance report should include trend analysis of performance against KPIs, and more on the longer-term sustainability plans for Forestry and Land Scotland. The financial information included should more clearly link to achievements of the organisation.</p>	<p>There are clearer links to financial performance in the 2021/22 performance report and the trend of improvement in reporting has continued.</p> <p>Complete</p>

Appendix 2. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Forestry and Land Scotland

2021/22 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk