

Annual Audit Report for Scottish Forestry

Financial year ended 31 March 2024

Prepared for those Charged
with Governance and the
Auditor General for Scotland

20 AUGUST 2024



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 external audit 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 Scottish Forestry 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.

Executive Summary (1)

This table summarises the key findings and other matters arising from the external audit of Scottish Forestry and the preparation of the financial statements for the year ended 31 March 2024 for those charged with governance (Audit and Assurance Committee) and the Auditor General for Scotland.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- Scottish Forestry's financial statements give a true and fair view of the financial position of the organisation at the 31 March 2024 and of the net expenditure of the organisation for the year then ended;
- Scottish Forestry's financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (FReM);
- Scottish Forestry's financial statements and the audited parts of the Remuneration Report and Staff Report have been prepared in accordance with the requirements of the 2023/24 Financial Reporting Manual (FReM) and directions made thereunder by the Scottish Ministers;

We are required to report whether other information published together with the audited financial statements in the Annual Report and Accounts is consistent with the financial statements and has been prepared in accordance with the requirements.

We are required to express an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

The quality of the annual report and accounts as well as supporting working papers provided to audit were of a good standard.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team in completing the external audit as they have been extremely helpful in supporting the audit process and providing evidence for samples and working papers.

We have issued an unmodified opinion on 20 August 2024.

Executive Summary (2)

Financial Statements

We received the first draft of the financial statements on 27 May 2024 which were presented on time. This version of the Annual Report and Accounts did not include the grant accruals in line with our expectations and this was subsequently received in version 2 on 26 June 2024. Note, this version did not include a balanced Statement of Cash Flows which had a variance of £0.013 million. An updated set of financial statements has subsequently been received which includes a reconciled Statement of Cash Flows.

There were four adjustments made to the primary financial statements of Scottish Forestry (three of which were identified by the finance team (bullet point one to four) and one identified by the audit team (bullet point five)). These adjustments related to:

- The recording of the grant accruals was not processed until the end of June 2024, which was in line with our agreed timeline. This resulted in an increase to programme costs (resource) of £3.289 million and programme costs (capital) of £29.212 million on the Statement of Comprehensive Net Expenditure and an increase of £32.501 million to grant accruals within the Statement of Financial Position.
- The recording of additions to the right of use asset of £0.190 million and the corresponding lease liability of £0.190 million within the Statement of Financial Position.
- The overstatement of co-financing receipts resulting in a reduction of £0.122 million on the Statement of Comprehensive Net Expenditure and a corresponding increase of £0.122 million in relation to grant accruals on the Statement of Financial Position.

- Following the finalisation of year-end balance, the recording of the accrued funding from Scottish Government of £16.123 million and a corresponding entry to the general fund of £16.123 million within the Statement of Financial Position.
- We identified an error where the co-financing receipts and programme costs were both overstated by £0.559 million on a line item basis due to the Small Woodland Loan Scheme transactions. This had a nil impact on the Statement of Comprehensive Net Expenditure.

Further details are included on pages 42 and 43 of this report.

We have raised four financial statement recommendations for management as a result of our audit work on the financial statements. These are set out within [Appendix 2](#).

Our follow up of the eight recommendations made as part of our 2022/23 audit are detailed in Appendix 4. Progress towards these recommendations are as follows:

- One recommendation has been superseded by recommendations made as part of the 2023/24 audit.
- One recommendation remains ongoing.
- Six recommendations have been closed.

There remains one ongoing recommendation which was raised as part of the 2021/22 audit by the predecessor auditors.

Executive Summary (3)

Wider scope

Under the Audit Scotland Code of Audit Practice (‘the Code’), the scope of public audit extends beyond the audit of the financial statements. The Code requires auditors to consider Scottish Forestry’s arrangements in respect of financial management, financial sustainability, vision, leadership and governance and use of resources to improve outcomes.

In our External Audit Plan for the year ended 31 March 2024, we documented our assessment of the wider scope risks and planned audit work. At the planning stage, we identified one significant risk:

- **Financial sustainability** – future financial plans for 2024/25 and beyond

We outline our work undertaken in response to the arrangements in place and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Further details of the work undertaken are outlined on pages 25 to 40.

We have raised two recommendations for management as a result of our audit work on wider scope. These are set out in [Appendix 3](#).

There remains a significant risk in respect of financial sustainability given the significant financial challenges Scottish Forestry faces over the longer term.

Introduction (1)

Scope of our audit work

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

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

This Annual Audit Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit and Assurance Committee on 20 August 2024.

As auditor, we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Responsibilities

Scottish Forestry has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts in accordance with proper accounting practices. Scottish Forestry is also responsible for compliance with legislation, and establishing arrangements over governance, propriety and regularity that enable it to successfully deliver its objectives.

Our responsibilities as independent auditors, appointed by the Audit Scotland, are set out in the Code, supplementary guidance, and International Standards on Auditing in the UK.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve officers from their responsibility to address the issues raised and to maintain an adequate system of control.

Audit approach

Our audit approach was based on a thorough understanding of the organisation's business and is risk based, and in particular included:

- An evaluation of the internal control environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Adding value through our audit work

We aim to add value to Scottish Forestry throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward-looking recommendations where we identify areas for improvement and encourage good practice around financial management and financial sustainability, risk management and performance monitoring. In so doing, we aim to help Scottish Forestry promote improved standards of governance, better management and decision making, and more effective use of resources.

Audit of the annual report and accounts

Our approach to the audit of the financial statements



Overall materiality

£1.066 million which represents 1.9% of the organisation's gross expenditure.

This has decreased from the Audit Plan value of £1.333 million due to the update of the materiality based upon the actual values within the 2023/24 draft financial statements as expenditure has decreased between 2022/23 and 2023/24.

Key audit matters

We did not identify any key audit matters at the planning stage or during the audit.

Significant and other risks

We identified the following significant risks:

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

Internal control environment

In accordance with ISA requirements, we have developed an understanding of Scottish Forestry's control environment. We have placed reliance upon controls with regards to the grant accruals whilst the rest of our audit was substantive in nature. In accordance with ISAs, over those areas of significant risk of material misstatement, we consider the design of controls in place.

However, where substantive testing was undertaken, we do not place reliance on the design of controls. We identified no material weaknesses from this work.

Recap of our audit approach and key changes in our audit strategy

Since the audit plan the following risk has changed:

- Migration of data of the finance system - this is not a risk in 2023/24 as the date of implementation is August 2024, and we will cover this risk in our 2024/25 Plan.

Status of Audit Work

Our audit team and the finance team continue to work together to complete the audit.

We have completed our external audit for 2023/24 and we issued an unmodified opinion on 20 August 2024.

Audit quality is important to us, and it is important as auditors that we take a step back to consider all our audit evidence and the quality of our audit work on file on completion. This includes sufficient documentation of our key auditor judgements and conclusions.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our audit approach was set out in our Audit Plan.

- We reviewed and updated our assessment of materiality from planning based upon your 2023/24 draft financial statements and concluded that materiality is £1.066 million (PY: £1.050 million) representing 1.9% (PY: 1.5%) of Scottish Forestry's gross expenditure.
- Performance materiality was set at £0.800 million (PY: £0.630 million), representing 75% (PY: 60%) of our calculated materiality.
- We report to Officers (Management) any differences identified over £0.053 million (PY: £0.052 million).
- We applied a lower materiality threshold for disclosures within the Remuneration Report to Senior Officer and Board Member Remuneration Tables due to the sensitive nature of this disclosure, the lower materiality applied to this area was £25,000 (PY: £5,000). We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We evaluate errors in the remuneration report for both quantitative and qualitative factors against this lower level of materiality. We will apply heightened auditor focus in the completeness and clarity of disclosures in this area and will request amendments to be made if any errors exceed the threshold we have set or would alter the bandings reported for any individual.

There is a change in materiality values since our final audit plan was communicated to you on 12 March 2024 as final expenditure for 2023/24 was used as the basis of the calculation. The percentage chosen for headline materiality, performance materiality and triviality remains unchanged.

Detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Scottish Forestry and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2023/24 HM Treasury Financial Reporting Manual (FRoM).
- We enquired of Senior Officers and the Audit and Assurance Committee, concerning Scottish Forestry's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Audit and Assurance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of Scottish Forestry's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We have reviewed the principal risks to journal entries that could alter Scottish Forestry's financial performance for the year and the risk of fraud in expenditure recognition. Our audit procedures in relation are documented within our response to the significant risk of management override of controls below.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in certain account balances and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - Scottish Forestry's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - Scottish Forestry's control environment, including the policies and procedures implemented by Scottish Forestry to ensure compliance with the requirements of the financial reporting framework.

Overview of audit risks

The table below summarises the key audit matters, significant and other risks discussed in more detail on the subsequent pages.

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Key audit matter	Level of judgement or estimation uncertainty	Testing approach	Status of work to date
Management override of controls	Significant	↔	✓	✘	Low	Substantive	● Green
Risk of fraud in expenditure	Significant	↔	✓	✘	Medium	Substantive	● Green

↑ Assessed risk increase since Audit Plan

↔ Assessed risk consistent with Audit Plan

↓ Assessed risk decrease since Audit Plan

Green - Not considered likely to result in material adjustment or change to disclosures within the financial statements

Amber - Potential to result in material adjustment or significant change to disclosures within the financial statements

Red - Likely to result in material adjustment or significant change to disclosures within the financial statements

Significant risks and Key Audit Matters (1)

Responding to significant financial statement risks

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. This section provides commentary on the significant audit risks communicated in the External Audit Plan.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Company's financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

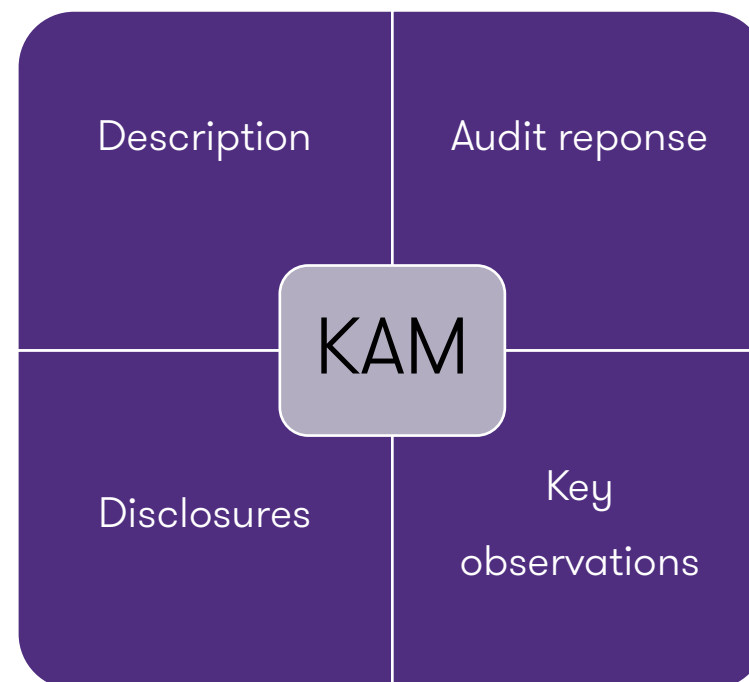
These matters included those that had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Other risks

Other risks are, in the auditor's judgment, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.



Significant Risks and Key Audit Matters (2)

Other significant risks identified in our Audit Plan Commentary

The revenue cycle includes fraudulent transactions

As set out in ISA (UK) 240 (Revised May 2021) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

(rebutted)

Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Scottish Forestry, we have determined that the risk of fraud arising from revenue recognition for all revenue streams can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited due to the majority of revenue received being grant funding from the Scottish Government;
- there is a low opportunity to manipulate other income since it non-complex and there are sufficient controls in place to prevent and detect fraud from other income streams, we therefore believe that the risk of material fraud is low.

Therefore, we do not consider this to be a significant risk for the Scottish Forestry.

Our results

Our work identified two issues in relation to the recognition of income:

- We identified an error where SWLS (Small Woodland Loan Scheme) transactions of £0.559 million were incorrectly included within co-financing income. The corresponding entry was within programme costs (capital grants), which resulted in both elements being overstated on a line-item basis, but a nil impact on the Statement of Comprehensive Net Expenditure.
- The finance team identified where the co-financing income figure was overstated by £0.122 million. The corresponding entry was to grant accruals.

Full details are included within [Appendix 2](#).

Significant Risks and Key Audit Matters (3)

Other significant risks identified in our Audit Plan

Commentary

Management override of controls

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.

In response to the risk highlighted in the audit plan, we carried out the following work:

- Documented our understanding of and evaluated the design effectiveness of management's key controls over journals;
- Analysed your full journal listing for the year and use this to determine our criteria for selecting high risk journals;
- Tested the high-risk journals we have identified;
- Gained an understanding of the critical judgements applied by management in the preparation of the financial statements and considered their reasonableness;
- Gained an understanding of the key accounting estimates made by management and carried out substantive testing on in scope estimates.
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions

Our results

Our testing of journals to date has identified one control weakness:

- Users had the ability to authorise and approve their own journal without being subject to review, regardless of the amount being posted. This creates a risk that inappropriate journals could be posted without being detected through review. The organisation does have other mitigating controls in place to reduce this risk including review of monthly financial outturns against budget. Further details can be found in [Appendix 2](#).

Our work has not identified any material issues in relation to management override of controls. We are satisfied from our work performed that there has been no identified instances of management override of controls that would result in a material misstatement of the financial statements. Each journal has sufficient supporting documentation to support its business rationale and is appropriately reviewed and authorised.

Significant risks and Key Audit Matters (4)

Other significant risks identified in our Audit Plan

Commentary

Risk of fraud in expenditure recognition (Practice Note 10)

As set out in practice note 10 (Revised 2022) '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 focussed our risk on the non-payroll expenditure streams. Our testing included a specific focus on year-end cut-off arrangements, including consideration of the existence of accruals in relation to non-payroll expenditure.

We therefore consider this to be a significant risk to our audit however do not consider this to be a key audit matter.

In response to the risk highlighted in the audit plan we carried out the following work:

- Evaluated your accounting policy for recognition of expenditure for appropriateness and compliance with the FReM;
- Performed 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; and
- Reviewed 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
- Our testing included a specific focus on year-end cut-off arrangements, including consideration of the existence of accruals in relation to non-payroll expenditure.

Our results

Our testing of the risk of fraud in expenditure did not identify any material issues in relation to expenditure recognition.

Other risks (1)

Other risks identified in our Audit Plan

Migration of data to the new finance system is not accurate and complete.

The organisation is set to deliver a new Finance system (Advanced), which replaces the current service level agreement which Scottish Forestry has in place for financial system support and maintenance.

The go-live date for the project was March 2024 however, this has been delayed due to several issues and the new implementation date is expected to be summer.

Commentary

In response to the risk highlighted in the audit plan we carried out the following work:

- Obtained an understanding of the implementation position and updates in terms of the go-live date.

Our results

The originally scheduled to go-live date in April, was delayed at the beginning 2024 and a revised implementation date of August 2024 has been confirmed for the new Finance system.

Due to the delay in the implementation of the new finance system until August 2024, this risk will therefore be considered and reviewed as part of our 2024/25 programme of audit work.

This work will include a review over the process of moving balances to the new system and confirming how Scottish Forestry have gained comfort that the process had been successful and that the data transferred is complete and accurate.

Other risks (2)

Other risks identified in our Audit Plan

Resource shortages within the finance team results in inaccurate and incomplete annual report and accounts.

As part of our planning work, it was noted that one of the members of the finance team is on their notice period whilst a further member within the team is on sickness leave.

Resultantly, this leaves one individual responsible for all aspects within the finance function and there is a risk that these shortages impact on the audit of the financial statements. Additionally, there are no contingency plans and limited knowledge sharing should further leave arise within the finance team.

We are aware of plans being made to recruit an Officer to support the finance team however, this is at an early stage.

Commentary

In response to the risk highlighted in the audit plan we carried out the following work:

- Obtained an understanding on the recruitment of finance support to understand any contingency plans in place in the event that any of the finance team is off on long-term leave.

Our results

A recruitment exercise has been undertaken, which has resulted in the appointment of a Director of Finance, which is an additional new role within the team. The new Director of Finance is due to start with Scottish Forestry in September 2024.

There have been numerous attempts to recruit staff and this has included the use of agency staff members to bridge some of the gaps within the team. These have been short term solutions which have helped to support the finance team.

The current finance team delivered the Annual Report and Accounts alongside supporting working papers on the deadline agreed for audit and have been supportive on delivering audit requests and documentation to support samples selected in a reasonable timeframe.

Financial Statements – key judgements and estimates (1)

As required in Scottish Forestry's Accounting Policies note, officers outline critical judgements in applying accounting policies and in addition, assumptions about the future and other sources of estimation uncertainty. In particular, where estimates and judgements are identified, these should be quantified.

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Orange] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Yellow] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Financial Statements – key judgements and estimates (2)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Assessment of leases – £1.810 million Net book value of right of use assets (Note 6)</p>	<p>Scottish Forestry determines the amounts to be recognised as the lease liability as the present value of the payments for the remaining lease term, net of irrecoverable value added tax, discounted either by the rate implicit in the lease, or, where this cannot be determined, the rate advised by HM Treasury for that calendar year. T</p> <p>The right-of-use asset is measured at the value of the liability, adjusted for any payments made or amounts accrued before the commencement date; lease incentives received; incremental costs of obtaining the lease; and any disposal costs at the end of the lease.</p> <p>Where leases are ongoing with no end date, Scottish Forestry have assumed a ten-year lease period.</p>	<p>We reviewed Scottish Forestry's assessment of the estimate considering the requirements of ISA (UK) 540 requirements and the underlying calculations and have confirmed the amounts recognised are in line with the requirements of IFRS 16.</p> <p>Conclusion</p> <p>Our work is concluded in this area. From our work in relation to IFRS 16 right of use assets, it was noted that Scottish Forestry do not have signed lease agreements/contracts for new/extended leases. This could impact on the entity's records of leases including details on their lease register. Note, we were able to review underlying email documentation to confirm lease details. We have raised a recommendation within Appendix 2.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

Financial Statements – key judgements and estimates (3)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Accruals - £1.800 million</p> <p>Grant Accruals – £38.607 million</p> <p>Note 10 Trade and Other Payables</p>	<p>Scottish Forestry accrues for expenditure to ensure that all expenditure that is incurred during the financial year, but has not yet been billed, invoiced or paid for, is recording in the year to which it relates. Scottish Forestry has two main types of accruals:</p> <p>Manual accruals</p> <p>These are largely based on non-purchase order-based accruals. Examples include the holiday and flexi pay accruals and amounts due from other government bodies. These are often based on best available information.</p> <p>Grant accruals</p> <p>Given the planting season is during the latter part of the financial year, the majority of claims are submitted around year-end for which the required checks and inspection are undertaken after the year-end, resulting in a large accrual at the 31 March 2024.</p>	<p>We have performed substantive testing on a sample of manual accruals, Forestry Grant Scheme accruals, recurrent accruals and rural payment accruals. Our work has not identified any errors.</p> <p>Conclusion</p> <p>Our work is concluded in this area, and we have no matters to raise.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

Other key elements of the financial statements (1)

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts:

Issue	Commentary
Matters in relation to fraud and irregularity	It is Scottish Forestry's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from officers and those charged with governance regarding Scottish Forestry's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of Scottish Forestry's accounting policies, accounting estimates and financial statement disclosures. We have identified disclosure adjustments required to the financial statements which have been detailed in Appendix 1 .
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed in the final version of the accounts.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We have not identified any cases of money laundering or fraud at Scottish Forestry.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Minor amendments have been made to the Annual Report and we are satisfied that there are no unadjusted material inconsistencies to report. The draft accounts did not include details of the Executive pension disclosures due to a hold up in the calculation of CETV across the public sector. Subsequent guidance was issued to bodies that a narrative disclosure could be included within the 2023/24 accounts in absence of the figures, and the Remuneration and Staff Report has been updated to reflect.

Other key elements of the financial statements (2)

Issue	Commentary
Governance statement	We are required to report on whether the information given in the Governance Statement is consistent with the financial statements and prepared in accordance with the requirements of the Financial Reporting Manual (FReM). No inconsistencies have been identified and we have issued an unmodified opinion in this respect.
Matters on which we report by exception	We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.
Opinion on other aspects of the annual report and accounts	We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been properly in accordance with the requirements of the Financial Reporting Manual (FReM), and directions there under. We have identified minor changes to the disclosures, which are reported fully in Appendix 1.
Regularity	The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance Accountability (Scotland) Act 2000. In our opinion in all material aspects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
Written representations	A letter of representation has been requested from Scottish Forestry as required by auditing standards. This can be found as a separate item to this report. We have not requested any specific representations in this letter from management.

Other key elements of the financial statements (3)













Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2022). The Financial Reporting Board recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Company meets this criteria, and so we have applied the continued provision of service approach.</p> <p>In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management’s (senior officer’s) assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management’s (senior officer’s) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
National Fraud Initiative	<p>The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including Scottish Forestry, receive matches for investigation.</p> <p>In March 2024, we were required to submit an NFI questionnaire to Audit Scotland, which RAG rated the organisations NFI arrangements. For Scottish Forestry, we provided a green recommendation noting that NFI is an explicit part of the organisation’s counter fraud arrangements and there has been commitment to the exercise with appropriate personnel being thoroughly involved in the process. Of the 133 matches identified, all matches have been resolved with no cases of fraud being identified from the matching exercise performed.</p>

Other key elements of the financial statements (4)





Issue	Commentary
Other returns to Audit Scotland	In accordance with the Audit Scotland Planning Guidance, as appointed auditors, we have prepared and submitted Fraud Returns and have contributed to shared intelligence for sector meetings and Technical Guidance Notes. There is nothing we need to bring to your attention in this respect.
Review of accounts consolidation schedules and specified procedures on behalf of the group auditor	<p>In line with ISA (UK) 600, the Scottish Government audit team are required to evaluate and review the work performed by component auditors in relation to the significant risks of material misstatement for the purpose of their group audit. As Scottish Forestry falls within the Scottish Government consolidation boundary, they must submit an audited consolidation pack to the Scottish Government once the annual accounts have been audited. This information is used by the Scottish Government to prepare its consolidated accounts and must be provided to the Scottish Government by 29 August 2024.</p> <p>Following the submission of the data by Scottish Forestry, we are required to provide an audited consolidation pack, a signed consolidation certificate and signed accounts to the Scottish Government audit team. We will aim to do this as soon as possible following the signing of the Annual Report and Accounts on the 20 August 2024 and before the deadline on the 29 August 2024.</p>

Other Findings – Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
E-Financials	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	All significant risks
Casebook	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	Fraud in Expenditure Recognition
RPID	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	Fraud in Expenditure Recognition

Assessment

-  **Red** - Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  **Amber** - Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  **Green** - IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  **Grey** - Not in scope for testing

Wider scope conclusions

Wider scope conclusions (1)

This section of our report documents our conclusions from audit work on the wider scope areas set out in the Code. We take a risk-based audit approach to wider scope work. Within our audit plan we identified [one significant wider scope risk in relation to financial sustainability](#).

As part of our ongoing audit planning audit work during the year we have not identified any additional wider scope audit risks.

Wider Scope Area	Our risk considerations and focus	Risk Identified	Wider Scope Conclusion
Financial Management	The arrangements in place at Scottish Forestry to ensure sound financial management, accountability and the arrangements to prevent and detect fraud, error and other irregularities	No	Scottish Forestry are required to deliver a balanced budget position by the Scottish Government. In 2023/24, Scottish Forestry had a significant underspend of £11.990 million against its final budget. Scottish Forestry's budget for 2024/25 has reduced significantly, meaning focus will be required around decision making and rationalisation of options so that services can be delivered within the reduced budget allocation
Financial Sustainability	The projected financial position of Scottish Forestry in the medium to longer term and the relevance and appropriateness of assumptions applied to financial plans that will allow the council to effectively deliver services in the future	Yes	Scottish Forestry do not prepare any longer-term financial plans which makes it difficult to assess the financial sustainability of the organisation over the longer term. Whilst we appreciate longer-term financial planning is challenging due to the Scottish Government decision to set one-year budgets, this should not prevent Scottish Forestry developing a medium-term financial strategy supported by shorter term detailed financial plans.

G Appropriate arrangements are in place, minor improvement recommendations made

A Appropriate arrangements are in place, improvement recommendations made

R Significant risk identified

Wider scope conclusions (2)

Wider Scope Area	Our risk considerations and focus	Risk Identified	Wider Scope Conclusion
Vision, Leadership and Governance	The effectiveness of Scottish Forestry's governance arrangements and the arrangements in place to deliver the vision, strategy and priorities set by the council	No	The governance arrangements at Scottish Forestry are effective, and we have assessed that there is a good level of challenge and scrutiny at Audit and Assurance Committee (AAC) meetings.
Use of Resources to Improve Outcomes	How the Scottish Forestry demonstrates economy, efficiency and effectiveness through its use of financial and other resources	No	The latest iteration of Scottish Forestry's Corporate Plan covered the period 2020-2023 and is now out of date. An updated Corporate Plan was originally scheduled to be published in Autumn 2024, however due to the reduction in funding in 2024/25, Scottish Forestry have had to revisit many of their spending plans and priorities over future years. As soon as practicable, Scottish Forestry should finalise the next version of the Corporate Plan which will set the future direction and objectives over the medium term.

G Appropriate arrangements are in place, minor improvement recommendations made

A Appropriate arrangements are in place, improvement recommendations made

R Significant risk identified

Wider scope audit – Financial Management (1)

Wider scope dimension	Wider scope audit response and findings	Conclusion
<p>Financial Management</p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>Scottish Forestry’s Financial Management Arrangements</p> <p>The financial performance monitoring process is reported to Scottish Forestry Strategic Advisory Group and Audit and Assurance Committee at each meeting as an integral part of the budget monitoring process.</p> <p>Variances from budget are clearly explained within the finance reports, with actions identified to resolve any adverse variances. This provides senior management and members with the opportunity to review, challenge and scrutinise financial performance. All budgetary and financial information submitted to board members is produced by the Finance Team within Scottish Forestry and reviewed by the Head of Finance and Business Support for technical accuracy. The finance team within Scottish Forestry have access to real time information through the finance ledger systems to provide accurate and timely financial monitoring reports.</p> <p>Finance Team</p> <p>Individuals involved in the preparation and reporting of financial information are qualified and experienced and have held finance positions at the organisation for a number of years. However, the finance team is relatively small, and if staff shortages or sickness arise, the organisation could face significant capacity issues.</p> <p>Scottish Forestry successful recruited a new Director of Finance in May 2024, with the successful candidate due to start in September 2024. This was a newly created post within the team in order to support the wider finance function.</p>	<p>Our review of financial reports during the year did not identify any significant issues.</p> <p>Financial policies and procedures have been reviewed and we are satisfied the financial regulations are comprehensive, current and promoted within the body.</p> <p>We have not identified any issues regarding the skills and capability of finance staff within the organisation. Given the size of the organisation, should staff shortages arise, the finance team may face capacity issues.</p>

Wider scope audit – Financial Management (2)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Financial Management (continued)	<p>Financial Performance</p> <p>Scottish Forestry are required to deliver a balanced budget each year. The original budget allocated to Scottish Forestry was £102.360 million however it was revised downwards as part of the autumn and spring budget revision which resulted in a reduction in total budget of £8.533 million.</p> <p>Scottish Forestry were provided the following funding from Scottish Government for 2023/24:</p> <ul style="list-style-type: none"> • Fiscal Resource - £42.892 million • Fiscal Capital - £50.022 million • Non-Cash - £0.913 million • Total - £93.827 million <p>In 2023/24, Scottish Forestry has reported an outturn of £81.837 million against its overall revised budget of £93.827 million, which is an underspend of £11.990 million. The underspend was due to:</p> <ul style="list-style-type: none"> • Additional co-financing income of £5.662 million not originally included in the budget. This income related to recurrent and rural priorities still eligible for funding, with Scottish Forestry receiving an additional £5.6 million • A £5.315 million underspend in programme costs in relation to forestry grants <p>Scottish Forestry and their Senior Executive Team have held several workshops and meetings to look at arrangements required to deliver a balanced budget. This has resulted in a number of measures being introduced including the establishment of a Resourcing Planning Committee. For 2024/25, this has reduced the budget deficit from circa £2.0 million to £0.8 million and the Senior Executive Team are monitoring budget performance monthly. We note that there are no detailed medium term saving plans in place and to ensure there is effective and transparent monitoring of these savings plans throughout the financial year, members and the SET should be kept updated and savings monitored on a RAG basis to confirm if they will be achieved during the year.</p>	<p>Our review of financial reports during the year noted a significant underspend with financial forecasting/budgeting challenges due to the planting season arising around year-end.</p> <p>Given reduction in budget in 24/25 and potentially going forward, Scottish Forestry have no detailed medium term savings plans in place. We have raised a recommendation around this within Appendix 3.</p>

Wider scope - Financial Sustainability (1)

Significant risk identified

For 2024/25, the Scottish Budget was laid before the Scottish Parliament in December 2023 and indicated that Scottish Forestry's budget would be £70.1 million, which is a significant reduction in comparison to 2023/24 (£23.7 million) and resultantly, Scottish Forestry will have to manage affordability constraints to deliver a balanced budget. Additionally, Scottish Forestry have indicated to the Scottish Government that this may only be sufficient to facilitate 8,000 – 9,000 hectares of new planting which would be in line with the level of planting in 2022/23 however, falls below the climate change plan target of 18,000 hectares.

Scottish Forestry do not have formalised medium to long-term financial plans. Consecutive one-year funding settlements and the fluidity of changing priorities across the Scottish Government create challenges in the organisation's ability to plan for the medium to longer term. Without forward looking plans, the financial sustainability of the organisation is difficult to forecast and the use of key assumptions, scenario planning, sensitivity analysis and risk analysis is more difficult to evidence.

Significant risk identified:

- We have identified a significant risk in relation Scottish Forestry's financial sustainability from our initial planning work in relation to future financial plans for 2024/25 and beyond.

Response to significant risk

- We sought to understand the future financial forecasts and plans for Scottish Forestry for 2024/25 and beyond, including key assumptions used, scenario planning, sensitivity analysis, risk analysis and the extent of any budget pressures and impact upon reserves.
- We considered the action Scottish Forestry is taking to address identified funding gaps, associated savings plans and the impact of reduced funding.

Conclusion on significant risk



Scottish Forestry are subject to one-year budgets from Scottish Government. With increasing costs, the organisation are faced with difficult decisions and challenges, which fundamentally, require longer term financial planning. As such, a risk remains for financial sustainability.

Scottish Forestry do not prepare any longer-term financial plans which makes it difficult to assess the financial sustainability of the organisation over the longer term.

Scottish Forestry should develop a medium-term financial strategy supported by shorter term detailed financial plans.

Wider scope audit – Financial Sustainability (2)

Wider scope dimension

Financial Sustainability

Financial sustainability looks forward to the medium to longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered

Wider scope audit response and findings

Budgeting

Scottish Forestry is funded by grant income from the Scottish Government with additional co-financing income received from the European Union. The main streams of expenditure for Scottish Forestry is grant expenditure (circa 73% of total expenditure) and staff costs (16% of total expenditure).

Scottish Forestry undertake an annual budget process which forms part of the wider annual business plan process. This includes discussions taking place between the leadership team and Scottish Government regarding funding requirements.

The Scottish Forestry budget is set within the Scottish Budget which confirms the Scottish Government's proposed spending and tax plans. This is laid before the Scottish Parliament in December on an annual basis. For 2024/25, Scottish Forestry's budget has been set at £70.1 million, which is a significant reduction in funding in comparison to the final 2023/24 budget (£23.7 million).

Scottish Forestry have outlined that the level of funding provided is not sufficient enough to achieve Ministerial planting targets as part of the Scottish Government's commitment to net zero. Scottish Forestry have informed Scottish Ministers that their plans to increase the tree planting target to 18,000 ha per year in 2024/25 cannot be met. Discussions with Scottish Government on this issue are ongoing. Ministers have confirmed that planting activity in the range of 9,000 ha will be achieved in 24/25 as a result of the budget reduction.

Conclusions

We have not identified any issues regarding the budgeting arrangements in place at Scottish Forestry. We consider these arrangements to be effective and appropriate.

Scottish Forestry and the Scottish Government must work together to establish realistic tree planting targets within the current budget.

Wider scope audit – Vision, Leadership and Governance (1)

Wider scope dimension	Wider scope audit response and findings	Conclusion
<p>Vision, Leadership and Governance</p> <p>Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>The Strategic Advisory Group (SAG) comprises all function heads, the Chief Forester and four non-executive advisers. The SAG’s role is to support and provide advice to the CEO to help them reach robust and well-informed decisions. During the year, the SAG met on two occasions and discussed a wide range of topics including horizon scanning, updating governance arrangements, future working projects and the results of the People Survey.</p> <p>The Senior Executive Team (SET), which comprises the heads of the five functions, leads Scottish Forestry and oversees the day-to-day management and direction of the agency. SET deliver against agreed programmes of work, and provide information, advice, and guidance to the CEO on key corporate matters and decisions. During the year, they met on eight occasions, discussing a wide range of issues.</p> <p>The Audit and Assurance Committee (AAC) comprises the non-executive advisers. The AAC provides advice and constructive challenge to the CEO, in particular in relation to their responsibilities for issues of risk management, governance, and associated assurance to support year-end accountability and reporting. The AAC operates in accordance with the principles contained in SG’s Audit Committee Handbook and met four times during the year.</p> <p>All responsibilities of delegated authorities in relation to internal control are clearly documented within the Framework Document as agreed with the Scottish Government.</p>	<p>Our review of attendance of members at SAG meetings and has not flagged any issues. We conclude that the SAG effectively challenge and scrutinize reports presented and ensure effective decision making.</p> <p>We are satisfied that the governance arrangements are appropriate and operate effectively. Members of the SAG are responsible for supporting the Chief Executive in order to make robust and well-informed decisions.</p> <p>Scottish Forestry publishes minutes of each Committee online, to ensure transparency of decision making.</p>

Wider scope audit – Vision, Leadership and Governance (2)

Wider scope dimension	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance (continued)	<p>Governance Statement The governance statement details the composition and governance structure of Scottish Forestry and how that supports the achievement of the organisation’s priority themes.</p> <p>In May 2023, Dr. David Signorini (Chief Executive and Accountable Officer) was seconded to the Scottish Government, and Paul Lowe was appointed as Interim Accountable Officer on 3 July 2023 and subsequently was made permanent in December 2023.</p> <p>Risk Management Scottish Forestry maintains a strategic risk register which is derived from the high-level risks of the organisation, along with corporate risks within the Group. Risks are evaluated by considering their probability of occurring along with their potential to impact on the outcomes expected of Scottish Forestry, the organisation’s operations and its stakeholders. The risks and management's mitigating actions are reviewed by the Audit and Assurance Committee at every meeting.</p> <p>Internal controls Internal audit activity is undertaken by the Scottish Government’s Internal Audit Directorate. Internal audit undertook four internal audits reviews during the financial year, covering a Review of Business Continuity Arrangements (limited assurance), Forestry Grant Scheme (reasonable assurance), Tree Health Policy and Procedures (reasonable assurance) and Learning & Development and Performance Management (reasonable assurance). This resulted in an overall assurance opinion for the 2023/34 financial year as reasonable assurance.</p>	<p>From review of the corporate governance statement, we are satisfied that it reflects the key findings from audit, scrutiny and inspection.</p> <p>We are satisfied that the key risks have been identified and that the pace of improvement is appropriate to the risks and challenges facing Scottish Forestry.</p> <p>Our review of internal audit reports did not highlight any significant weaknesses in controls within the organisation for the 2023/24 financial year.</p> <p>We consider the governance arrangements in place at Scottish Forestry to be effective and appropriate.</p>

Wider scope audit – Use of Resources to Improve Outcomes (1)

Wider scope dimension	Wider scope audit response and findings	Conclusion
<p>Use of Resources to Improve Outcomes</p> <p>Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.</p>	<p>Corporate planning</p> <p>The Corporate Plan is Scottish Forestry's overarching strategic document and sets out the purpose and strategic objectives which shape Scottish Forestry activity. The latest iteration of Scottish Forestry's Corporate Plan covered the period 2020-2023 and is now out of date.</p> <p>An updated Corporate Plan was originally scheduled to be published in 2023, however, due to the reduction in funding as part of the 2024/25 budget process, Scottish Forestry have had to revisit many of their spending plans and priorities over future years. Scottish Forestry have held various workshops and sessions whilst considering Cabinet priorities in the corporate planning process however, priorities weren't re-articulated until after the July general election.</p> <p>Scottish Forestry should finalise the next version of the Corporate Plan which will set the future direction and objectives over the medium term as soon as possible. The intended publication date for the Corporate Plan is Autumn 2024.</p> <p>The Corporate Plan is supported by an annual Business Plan which provides more detail on the steps Scottish Forestry are taking to make progress towards their strategic objectives on an annual basis. The Business Plan covering 2024/25 has not yet been finalised, due to the reasons outlined above.</p>	<p>We have raised an action plan recommendation outlining Scottish Forestry should finalise the next version of the Corporate Plan which will set the future direction and objectives over the medium term.</p> <p>Action Plan recommendation raised - see Appendix 3.</p>

Wider scope audit – Use of Resources to Improve Outcomes (2)

Wider scope dimension	Wider scope audit response and findings	Conclusion
<p>Use of Resources to Improve Outcomes (continued)</p>	<p>Key Performance Indicators</p> <p>The current suite of KPIs are being reviewed and updated as part of the current work to produce the new Corporate Plan to ensure they are aligned to SMART principles which is being led by the Senior Business Analyst and Corporate Support Manager, with input from members of the Information Governance Group. Within this review, KPIs are being reviewed to identify potential improvements e.g. providing information on the organisation’s progress towards Net Zero.</p> <p>The Senior Business Analyst has developed a Management Information Vision and Strategy which sits alongside and supports this area of work. Work has commenced on creating an interactive, much more visual beta facility for scrutinising different data sets, which will initially be shared with the Information Governance Group. The Corporate Support Manager is reviewing the Definition Sheets which were pulled together in 2020 for the first set of KPIs.</p> <p>Scottish Forestry produce an annual Key Performance Indicator report which lays out the measurements and definitions of their set of KPIs and performance against them to date. At the date of our report, this had not yet been published and is currently in production. Within the Annual Report and Accounts, Scottish Forestry have reported and provided narrative in relation to some of the key KPIs.</p>	<p>Scottish Forestry are currently reviewing the suite of KPIs to align with the updated Corporate Plan which is in development.</p> <p>We have a prior year recommendation around performance reporting, which remains ongoing. Please refer to Appendix 4 for further details.</p>

Wider scope audit – Use of Resources to Improve Outcomes (3)

Wider scope dimension	Wider scope audit response and findings	Conclusion
<p>Use of Resources to Improve Outcomes (continued)</p>	<p>Performance reporting</p> <p>Performance against national standards is reported within performance reports alongside other performance measures. There is limited benchmarking undertaken as there is limited scope to do this due to Scottish Forestry’s unique operations.</p> <p>Scottish Forestry has adopted a number of Key Performance Indicators (KPIs), which are measurable values that demonstrate how effectively the organisation is achieving its objectives. Performance is reported against these KPIs within the Annual Report and Accounts.</p> <p>Performance against the indicators has been mixed for 2023/24 when compared with 2022/23, with some improving and some worsening.</p> <p>Planting target</p> <p>Scottish Forestry exceeded their Woodland planting targets in 2023/24, with Scotland creating 15,000 hectares of new woodland in 2023/24. This was the highest total created in 34 years and more than an 80% increase from 2022/23.</p> <p>Scottish Forestry were also responsible for the creation of 7,700 hectares of native woodland. This exceeded the Scottish Biodiversity Strategy target of 3-5,000 hectares per year and is the highest level of native planting since 2001.</p> <p>There continues to be healthy level of applications for woodland creation, with around 15,000 hectares already approved for planting over the next three years, with a further 28,000 hectares of projects currently being worked on. However, woodland creation in 2024/25 will be limited by the available funding and is currently forecast to be in the range of 10-11,000 hectares, compared to a potential of around 14,000 hectares. Scottish Forestry are engaging with Ministers in relation to future targets and we will provide updates in our next Annual Audit Report.</p>	<p>Scottish Forestry and the Scottish Government must work together to establish realistic tree planting targets within the current budget – see Financial Sustainability slides.</p>

Best Value

The Scottish Public Finance Manual explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. There is ministerial guidance to ensure that arrangements are in place to secure Best Value in public services.

There are seven Best Value characteristics set out within the Manual and they were reviewed as part of our risk assessment.

Audit Scotland require us as auditors to undertake work on the Fairness and Equality characteristic at least once during our audit appointment and we have undertaken this review during our 2023/24 audit. The following was noted from the work carried out:

- Scottish Forestry have issued Equality Mainstreaming Reports which looks back on the organisations recent progress on equality, diversity and inclusion. The most recent report (covering 2021-2023) was published on the 31 March 2023.
- Scottish Forestry complete Equality Impact Assessments (EIAs) as a way of understanding the impact of changes that may affect their workforce and members of the public.
- Scottish Forestry have agreed new Equality Outcomes for the period 2023-2027, which are outlined in the workforce plan.

Best Value work under the new Code of Audit Practice is fully integrated within the annual audit work performed by appointed auditors and their teams. As part of our integrated wider-scope annual audit work, we as appointed auditors use a risk-based approach to assess and report whether the company has made proper arrangements for securing Best Value. We have not identified any significant risks in relation to the arrangements in place to secure best value from our work performed over wider scope areas as outlined in this report.

Appendices

1. Audit Adjustments (1)

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements made during the course of the audit are set out in the table below, together with their impact on the Comprehensive Income and Expenditure Statement, the Statement of Financial Position, and the reported net expenditure of the organisation for the year ending 31 March 2024.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Right of Use Asset Additions			
Dr Right of Use Assets - Addition	-	190	
Cr Lease Creditor	-	(190)	-
<i>Being the adjustment to recognise additions to right of use assets (adjustment identified by Scottish Forestry).</i>			
Grant Accruals			
Dr Programme Costs – Resource Grants	3,289	-	
Dr Programme Costs – Capital Grants	29,212	-	
Cr Trade and Other Payables – Grant Accruals		(32,501)	32,501
<i>Being recognition of grant accruals on confirmation of year-end balances (adjustment identified by Scottish Forestry).</i>			

1. Audit Adjustments (2)

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Overstatement of Co-Financing Receipts			
Dr Co-Financing Receipts Income	122	-	
Cr Trade and Other Payables – Grant Accruals	-	(122)	122
<i>Being the adjustment to eliminate the overstatement of co-financing receipts (adjustment identified by Scottish Forestry).</i>			
Accrued Funding from SG			
Dr Trade and Other Receivables - Accrued Funding from SG	-	16,123	-
Cr General Fund	-	(16,123)	
<i>Being the recognition of accrued funding from SG following finalisation of year-end balances (adjustment identified by Scottish Forestry).</i>			
Overstatement of Co-Financing Receipts and Programme Costs			
Dr Co-Financing Receipts Income	559	-	
Cr Programme Costs – Capital Grants	(559)	-	-
<i>Being the adjustment to eliminate the overstatement of co-financing receipts and programme costs.</i>			
Total	32,623	(32,623)	32,623

1. Audit Adjustments (3)

Impact of unadjusted misstatements

As at the date of this report, there are no unadjusted audit misstatements that are above our reporting level. We will report our final conclusions and any agreed audit adjustments on conclusion of the outstanding work.

Impact of unadjusted misstatements in the prior year

There were no unadjusted misstatements brought forward from the 2022/23 audit.

1. Audit Adjustments (4)

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This is not a complete list, as this does not include minor changes requested by the audit team, including typos and formatting requests.

This list of misclassification and disclosure changes reflects presentational adjustments to the financial statements which have no impact on Scottish Forestry's reported financial position.

Disclosure	Auditor recommendations	Adjusted?
Review of Annual Report and Accounts (General)	We identified minor casting errors, figures which had not yet been included and formatting issues as part of our review of the Annual Report and Accounts. These were raised and processed by management where necessary.	Yes
Performance Report	Scottish Forestry have enhanced the layout of the Performance Report to ensure all elements sit within the two prescribed sections as outlined within the FReM (Performance Overview and Performance Analysis. This included moving the analysis of trend information and KPIs from the Overview to Analysis section. The Table of Contents does include additional headings to aid the user of the financial statements and there are opportunities to reduce these.	Partly
Other Information	We have identified minor amendments required to be made to the annual report to ensure it is consistent with the financial statements. These have been amended by management.	Yes
Basis of Accounts	Within Note 1 of the Notes to the Financial Statements, the basis of accounts being prepared was updated to the 2023/24 FReM.	Yes

1. Audit Adjustments (4 continued)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Remuneration and Staff Report	<p>We identified the following issues within the Remuneration and Staff Report:</p> <p>Single Figures of Remuneration:</p> <p>The single figures of remuneration table did not include figures within the first version of the accounts. This was provided in the subsequent version of the accounts.</p> <p>Pension Benefits:</p> <p>The draft accounts did not include details of the Executive pension disclosures due to a hold up in the calculation of CETV across the public sector. Subsequently guidance was issued to bodies that a narrative disclosure could be included within the 2023/24 accounts in absence of the figures, and the Remuneration and Staff Report has been updated to reflect.</p> <p>Transactions with Committee and Board Members:</p> <p>The figures within the transactions with Committee and Board Members note was updated following confirmation of year-end figures.</p> <p>Civil Service Pensions:</p> <p>The figures within the Civil Service Pension note in relation to employers' contributions were updated on receipt of the year-end figures.</p> <p>Trade Union Disclosures:</p> <p>The current trade union disclosures provide the information to the users of the financial statements however, are not in the format set out within the FReM.</p> <p>Exit Packages:</p> <p>The prior year comparative was added to the note, in line with IAS 1.</p> <p>Fair Pay Disclosures:</p> <p>The fair pay disclosures should be updated to ensure that the disclosure shows the 25th, 50th and 75th percentiles are detailed for both 'total pay and benefits' and 'the salary component of total pay and benefits'.</p>	Partly
Accountability Report	The disclosures within the Parliamentary Accountability and Audit Report detailed in section 6.7.1 of the FReM, should be marked as subject to audit.	Yes

1. Audit Adjustments (5)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Statement of Cash Flows	<p>The Statement of Cash Flows was not provided in the first version of the draft financial statements as the grant accruals figure was still to be finalised. The second version of the draft financial statements included an unreconciled Statement with a variance of £0.013 million. This has been provided in a subsequent version of the Annual Report and Accounts provided to audit.</p>	Yes
Note 1 – Accounting Policies	<p>The following amendments were made to the accounting policies:</p> <ul style="list-style-type: none"> • The Basis of Accounts paragraph was updated to change to FReM reference to 2023/24 Government Financial Reporting (FReM). <p>There is opportunities to enhance the disclosures in the following areas to ensure full compliance with the FReM:</p> <ul style="list-style-type: none"> • Lessee Disclosures (in line with IFRS 16) • Pension Disclosures (in line with IAS 19) 	Partly
Note 3 – Other Administration Costs	<p>Note 3 includes a material other administration expenditure line – a narrative disclosure should be included to detail what elements make up this line.</p>	No
Note 7 – Financial Instruments	<p>The disclosure has been amended for the issues we identified including:</p> <ul style="list-style-type: none"> • Inclusion of the updated receivables and payables figures following the inclusion of year-end balances e.g. grant accruals. This resulted in financial assets increased from £1.436 million to £17.371 million and increased financial liabilities from £13.635 million to £45.833 million. • Removal of statutory obligations including holiday and flexi pay accruals from the financial disclosed as these do not meet the definition of a financial instrument. This has reduced financial liabilities by £0.362 million. • Removal of statutory obligations including VAT receivables and contractual obligations for goods and services including prepayments from the financial assets disclosed as these do not meet the definition of a financial instrument. This has reduced financial assets by £0.187 million. 	Yes

1. Audit Adjustments (6)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Note 10 – Trade and Other Payables	The intra-government balances note 10b was updated to reconcile back to the analysis by type note 10a as there was variances between the two notes due to casting errors.	Yes
Note 11 – Provisions for Liabilities and Changes	This note was updated to confirm that there were no provision for liabilities and charges provided for in 2023/24 or in the prior year.	Yes
Note 12 – Note to the Statement of Cash Flows	This note was updated to include the increase in the bad debt provision of £0.105 million and movements in relation to IFRS 16 charges of £0.012 million.	Yes
Note 17 – Related Parties	The related parties note was updated as there was a transposition error for the expenditure with Forest Research where the amounts were recorded in the wrong year (23/24 figures were disclosed as 22/23 figures and vice versa).	Yes

2. Action plan and recommendations – Financial statements audit (1)

We have identified four recommendations for Scottish Forestry during our audit of the financial statements for the year ended 31 March 2024. We have agreed our recommendations with management and will report on progress on these recommendations during our 2024/25 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	<p>Journals</p> <p>Within our journals walkthrough, we identified the following:</p> <p>(1) senior financial reporting personnel have the ability to post journal entries (e.g. Head of Finance and Business Support)</p> <p>(2) individuals have the ability to prepare and post their own journal entries</p> <p>Scottish Forestry’s policy is that journals do include segregation of duties however, there is an offline authorisation of journals which provides an opportunity to circumvent controls. There are compensatory controls in place through regular and month-end review of cost centres which would identify any material errors and/or anomalies. This is the same process in place as in the prior year, but given the new finance system, there are opportunities to ensure automated controls are in place.</p>	<p>Until the new system is implemented, Scottish Forestry should ensure that all journal approval emails are attached as evidence alongside the journal form.</p> <p>In implementing the new system, Scottish Forestry should ensure that the system is set up to ensure preparer and approver of journals are different officers, and this can be easily identified within the general ledger.</p> <p>Management Response</p> <p>We will ensure that all non-system journals have supporting back-up. In addition we will review our processes for use with the new finance system.</p> <p>Responsible Officer Senior Finance Manager</p> <p>Implementation Date January 2025</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements

● Low – Best practice

2. Action plan and recommendations – Financial statements audit (2)

Assessment	Issue and risk	Recommendations
Medium	<p>E-Financials</p> <p>After inspecting the journal user list at Scottish Forestry, we have noticed that one user still have an access account that is no longer required. This was an isolated issue and therefore we do not deem this to be a significant control deficiency.</p>	<p>We recommend that the user list is reviewed to ensure all users with access are still appropriate.</p> <p>Management Response</p> <p>We will implement procedures for the new system to ensure that this does not re-occur</p> <p>Responsible Officer Senior Finance Manager</p> <p>Implementation Date August 2024</p>
Medium	<p>Lease Agreements</p> <p>From our work in relation to IFRS 16 right of use assets, it was noted that Scottish Forestry do not have signed lease agreements/contracts for all new/extended leases. This could impact on the entity's records of leases including details on their lease register.</p>	<p>Management should ensure at the commencement of each lease, or at the period of extension, an updated signed lease is obtained for each relevant property to ensure appropriate records are held by the organisation.</p> <p>Management Response</p> <p>We will ensure that we have a copy of all lease, lease extensions etc</p> <p>Responsible Officer Senior Finance Manager</p> <p>Implementation Date August 2024</p>

2. Action plan and recommendations – Financial statements audit (3)

Assessment	Issue and risk	Recommendations
Low	<p>Delegated Limits of Financial Authority</p> <p>The Delegated Limits of Financial Authority document is out of date, with the last review of the document taking place in July 2020.</p>	<p>Scottish Forestry should review the Delegated Limits of Financial Authority document and update as required. In addition, the date for next review should be included within the document (this should be set every 3 years).</p> <p>Management Response</p> <p>A delegated limit of financial authority has been reviewed in 2022-23 but as result the new Director of Finance starting. The Senior Finance Manager decided not implement the revised document until discussions with the new director.</p> <p>Responsible Officer Director of Finance / Senior Finance Manager</p> <p>Implementation Date January 2025</p>

3. Action plan and recommendations – Wider scope and Best Value

We have set out below, based on our audit work undertaken in 2023/24, the key recommendations arising from our wider scope and Best Value audit work:

Recommendation

Savings Plan

Scottish Forestry have no detailed medium terms savings plans in place and work is ongoing on an annual basis to ensure a balanced budget is achieved.

Recommendation

Given the budget challenges and reduce funding Scottish Forestry face in the current year and potential into future years, Scottish Forestry should develop a medium term savings plan, which can be appropriately tracked and monitored on a RAG basis through the relevant Forum to ensure savings can be achieved. This will allow for both recurring and non-recurring savings to be identified.

Corporate Plan

The latest iteration of Scottish Forestry's Corporate Plan covered the period 2020-2023 and is now out of date. An updated Corporate Plan was originally scheduled to be published in Autumn 2024, however. due to the reduction in funding as part of the 2024/25 budget process and changes with Cabinet priorities, Scottish Forestry have had to revisit many of their spending plans and priorities over future years.

Recommendation

Scottish Forestry should look to finalise their Corporate Plan as soon as possible and publish on their website after the necessary consultations have taken place.

Agreed management response

Management response:

With the current reductions in budget received, SET have started the process which will be formalised over the remainder of the year.

Responsible Officer Director of Finance

Implementation Date March 2025

Management response:

Work on the new Corporate Plan and Strategy is well underway. The Senior Executive Team have agreed a position on the structure and content, and the updated Vision, Mission and Purpose. New Strategic Objectives and accompanying priorities have also been developed. The draft contents has been submitted and agreed by the Cabinet Secretary RALRI, and feedback given, which will be incorporated. Alongside the plan a set Key Performance Indicators are in development. As part of the engagement work core parts will be shared with staff and also other stakeholders, ahead of full publication planned for later in the year.

Responsible Officer Head of Executive Office

Implementation Date November 2024

4. Follow up of prior year recommendations (1)

We identified the following issues in the audit of Scottish Forestry's 2023/24 financial statements, which resulted in 8 recommendations being reported in our 2022/23 Annual Audit Report. We have performed additional work in year to obtain assurance whether the recommendation from prior year has been closed and resolved in the current year or whether the issue still exists and the recommendation remains open and/or in progress. 6 out of 8 recommendations have been cleared, 1 recommendation remains ongoing, and one was superceded.

Recommendations from financial statements audit

Assessment	Issue and recommendation previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Closed (22/23 audit)	<p>1. Review of FReM Accounting Policies</p> <p>The financial statements do not contain all necessary disclosures set out per the FReM and as such, are not fully compliant. Details have been highlighted within the disclosure misstatements within Appendix 1. This includes numerous areas including critical estimates and judgements, segmental reporting, related parties and leases.</p> <p>Recommendation: Management should complete the FReM Financial Statement Disclosure Checklist and FReM Annual Report Disclosure Checklist to ensure all required accounting policies are met and appropriate disclosures are included within the financial statements.</p>	<p>Scottish Forestry have scheduled an Audit and Assurance Committee on the 20 August 2024 to sign the 2023/24 Annual Report and Accounts.</p>	<p>We are satisfied that management has responded to the recommendation and from the completion of the FReM disclosure checklists, we noted only minor changes to be made.</p>
Superseded (22/23 audit)	<p>2. Lease Register</p> <p>During 2022/23, IFRS 16 was implemented by Scottish Forestry. The audit team verified, on a sample basis, the list of leases identified by Scottish Forestry including reviewing the lease payments. It was noted that the organisation does not maintain a lease register.</p> <p>Recommendation: Management should develop a lease register to ensure a list of all leases are maintained including lease details such as start and end date which given the implementation of IFRS 16 in 2022/23 will enable the organisation to easily identify leases which fall under this standard and ensure correct treatment.</p>	<p>NFI progress updates are regularly reported to the Audit and Assurance Committee. Although the self-appraisal checklist was not completed for the last NFI exercise, this is not mandatory and will be considered going forward.</p>	<p>We are satisfied that management has responded to the recommendation and implemented a lease register. We have raised a new recommendation around lease agreements within Appendix 2.</p>

4. Follow up of prior year recommendations (2)

Recommendations from financial statements audit (continued)

Assessment	Issue and recommendation previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Closed (22/23 audit)	<p>3. Late timeline of Audit and Assurance Committee</p> <p>The target date specified by Audit Scotland for submission audited accounts and the Annual Audit Report were brought forward in the 2021 Code to 31 August 2023. The AAC is convening to sign the final Annual Report and Accounts on 6 September 2023. This is after the target submission date of 31 August 2023.</p> <p>Recommendation: Review the date which the Audit and Assurance Committee meets the date for signing the final Annual Report and Accounts in 2023/34 to meet the target submission date.</p>	<p>Scottish Forestry have scheduled an Audit and Assurance Committee on the 20 August 2024 to sign the 2023/24 Annual Report and Accounts.</p>	<p>We are satisfied that management has responded to the recommendation and the date scheduled meets the target deadline.</p>
Closed (22/23 audit)	<p>4. NFI</p> <p>The matches for the NFI exercise were released in January 2023. Processes and arrangements are in place for investigating the matches. All matches are required to be investigated by 30 September 2023 and the results recorded on the NFI system.</p> <p>Recommendation: Report NFI progress updates the Audit and Assurance Committee.</p> <p>Consider completing the self-appraisal checklist referred to in the 2021 NFI Report.</p>	<p>NFI progress updates are regularly reported to the Audit and Assurance Committee. Although the self-appraisal checklist was not completed for the last NFI exercise, this is not mandatory and will be considered going forward.</p>	<p>We are satisfied that management has responded to the recommendation. From our work completed, including the completion of the NFI questionnaire, we are satisfied that the organisation's NFI arrangements are RAG rated as green and appropriate arrangements are in place.</p>

4. Follow up of prior year recommendations (3)

Recommendations from wider scope audit

Assessment	Issue and recommendation previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Closed (22/23 audit)	<p>5. Financial Management</p> <p>A large underspend against budget of £24.350 million was recorded in 2022/23 and as a result, Scottish Forestry will face scrutiny around their annual budget given the current pressures faced across the public sector. Scottish Forestry's outturn is highly dependent on grant expenditure and given the planting season is in the latter part of the financial year, can be difficult to forecast.</p> <p>Recommendation: Scottish Forestry should seek to develop more accurate financial forecasting/budget controls to ensure significant underspends do not arise within the organisation.</p>	<p>Management have committed to an action plan addressing the issues and associated risks which include the end of year drop offs, this will enable more accurate forecasting to ensure significant underspends do not arise.</p>	<p>We are satisfied that management has responded to the recommendation.</p>

4. Follow up of prior year recommendations (4)

Recommendations from wider scope audit (continued)

Assessment	Issue and recommendation previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Ongoing (22/23 audit)	<p>6. Financial Sustainability</p> <p>With a challenging financial climate and uncertain economic future, there is a risk that funding for bodies such as Scottish Forestry reduces, as the government prioritises other areas of public spend.</p> <p>Recommendation: Once the new corporate plan is in place, a medium/longer term financial strategy should be developed. The organisation should refresh their forward planning and review the underlying assumptions within their plans to ensure these are realistic and in line with inflationary changes and public sector pay awards and undertake sensitivity analysis. This should be prepared and approved by the relevant Committee and regular updates around the current financial position should be evidenced in reporting to the SAG and AAC. This will help to mitigate against the impact of any future risks on delivery of the financial position before they crystallise.</p>	<p>Monthly reports continue to Scottish Government and SET. Work is ongoing to improve the organisation's medium and longer-term financial strategy including learning lessons from the previous year's out turn position.</p> <p>In addition, the organisation is undertaking medium term financial budget reviews as part of the Scottish Government budget process, which will assist in the longer-term strategy.</p>	<p>Scottish Forestry have yet to implement a medium-term financial strategy (MTFS). Longer term financial planning remains in development and no formalised plans have been agreed.</p>

4. Follow up of prior year recommendations (5)

Recommendations from wider scope audit (continued)

Assessment	Issue and recommendation previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Closed (22/23 audit)	<p>7. Corporate Publications</p> <p>Scottish Forestry publish a range of key corporate documentation including business plans and policies. Minutes of Committee meetings including the SAG, SET and AAC are published online. We found that minutes from these meetings are not uploaded onto the public website in a timely manner with no 2023 documents being published for the SAG and SET.</p> <p>Recommendation: Whilst we recognise that sensitive information may be withheld, we recommend that to ensure openness and transparency in decision making, minutes are published in a timelier manner.</p>	<p>SET and SAG minutes should now be up to date. A SAG meeting in August 2023 was rearranged as a Woodland Creation workshop. November 2023 SET meeting was cancelled. On occasion, meetings are cancelled and due to limitations on the website, it is not possible to indicate this. The only minutes yet to be published are those yet to be ratified and those containing sensitive information.</p>	<p>We are satisfied that management has responded to this recommendation and all minutes have been published and available online.</p>
Closed (22/23 audit)	<p>8. Climate Change Reporting</p> <p>There are currently no specific disclosure requirements on climate change and environmental matters. However, public bodies should be including climate change in their consideration of principal risks and making disclosures accordingly. Narrative reporting requirements and expectations should relate to both the body's impact on the environment, and the impact climate change may have on the body's future. The Financial Reporting Council completed a thematic review of climate change-related considerations explaining the general requirements of IFRS providing a clear framework for incorporating the risks of climate change into financial reporting and although this review focused on companies, the principles can be applied to public sector bodies.</p> <p>Recommendation: Scottish Forestry should review their current disclosures to ensure that their narrative reporting adequately reflects their exposure to climate-related issues and how they are monitoring and managing these risks.</p>	<p>A Net Zero Action group has been established and a Scottish Forestry wide talk on Corporate Sustainability was delivered on 22/04/2024. In addition, Scottish Forestry is part of the Environment and Economy Leaders Group.</p>	<p>We are satisfied that management has responded to the recommendation. Scottish Forestry have enhanced their climate related disclosure where required.</p>

4. Follow up of prior year recommendations (6)

The following recommendation remained open from the 2021/22 audit and we have performed additional work in year to obtain assurance whether the recommendation has been closed and resolved in the current year or whether the issue still exists and the recommendation remains open.

Recommendations from financial statements audit

Assessment	Issue and recommendation previously communicated	Management update on actions taken to address the issue	Auditor Conclusion
Ongoing (21/22 audit)	<p>8. Performance reporting</p> <p>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 Corporate Plan and Strategy 2024-2029 is under development, and is due to be published in Oct 2024. As part of the preparation of this document, we now have a Policy in place for selecting our KPIs. We have agreed they must be consistent, repeatable and resilient, and from a trusted validated source of information/data. A set of 14 KPIs have been suggested as part of the draft Corporate Plan and Strategy. A number of these relate to Net Zero aims:</p> <ul style="list-style-type: none"> - 9000 hectares new woodland creation delivered through Forestry Grant Scheme funding - 4,000ha new native woodland creation delivered through Forestry Grant Scheme funding - Maintain increase in Long Term Forest Plans over time - Predicted carbon sequestration of projects validated to the UK Woodland Carbon Code increasing 20% each year - 90% decrease in emissions by helicopter travel. 40,000 fewer miles travelled each year by staff. 30% decrease in estate related emissions. 	<p>This recommendation is ongoing as the work around updating the KPIs and Corporate Plan has not yet been finalised.</p>

5. Audit fees, ethics and independence (1)

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 requirement of the Financial Reporting Board's Ethical Standard.

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and Scottish Forestry that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the entity or investments in the organisation held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the organisation as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and Scottish Forestry.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place, note that there are no non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the organisation's board, senior management or staff.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

5. Audit fees, ethics and independence (2)

Fees and non-audit services

The tables below set out the total fees for audit and other services charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

For the purposes of our audit, we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Scottish Forestry. The table summarises all non-audit services which were identified.

External Audit Fee

Service	Audit Plan £	Annual Audit Report £
External Auditor Remuneration	£62,120	£62,120
Pooled Costs	£6,270	£6,270
Sectoral Cap Adjustment	(£12,750)	(£12,750)
2022/23 Audit Fee	£55,640	£55,640

Fees for other services

Service	Fees £
We confirm that for 2023/24, we did not receive any fees for non-audit services	Nil

The final audit fee was approved by the Audit and Assurance Committee on 20 August 2024.

5. Audit fees, ethics and independence (3)

The fees reconcile to the financial statements (round £'000 in the financial statements).

- Fees per financial statements £55,640
- Total fees per previous page £55,640

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Mark Stocks, Partner and Head of Public Sector Assurance, 103 Colmore Row, Birmingham, B3 3AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to John Gilchrist, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2021](#) [grantthornton.co.uk]

6. Communication of audit matters

International Standard on Auditing ISA (UK) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance. These are set out in the table below.

Our communication plan	Audit Plan	Annual Report (our ISA 260 Report)
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	•	•
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.		•



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